Confidential Collection No. 606-44

year 1944-1945
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Subject: Discussions at meetings of Committees of Chambers of Presses at Bombay.

CONFIDENTIAL.

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Collection No. 106-44

Year 1944 —1945.

C.B. 15-44-14.

General and Revenue

Secretariat.

Confidential Branch.

SUBJECT

Discussions at meetings of Committees of Chamber of Princes at Bombay (in July 1945).

PREVIOUS REFERENCES.	LATER REFERENCES.
C.C. No. 105 of 44.	C.C. No. 43 of 45.

WD 03946—GPB—300—8-9-43

RE: MEETINGS OF CERTAIN COMMITTEES OF RULERS AND MINISTERS OF STATES HELD IN BOMBAY - JULY 1945.

C.C. No.106-44. (C.B.15-44-14)

1. Notes of discussions at the meetings (recorded by the Dewan

2. Draft Summary of Proceedings of the Special Constitutional Committee and the Constitutional Advisory Committee.

3. Report of the Sub-Committee on proposals to establish Council for Greater India.

4. His Excellency Lord Wavell's Broadcast speech on 14th June 1945 regarding proposals for Interim Government.

5. Proceedings of the Joint Meeting of the Finance and Industries Committees.

6. Printed Copy of the Government of India's Statement on Industrial Policy dated 21st April 1945.

7. Resolution of the Special Committee of Rulers regarding co-operation of the States with British India in matters of Industrial Development.

8. Notes of an informal discussion between the representatives of the States and the Political Department, held on 21st May 1945.

9. Copy of a Note by Sir Joseph Bhore on the Statement of the Government of India on Industrial Policy.

10. Memorandum on the question of the States getting their due quota of plant and machinery.

Re: Meetings in Bombay. July 1945

Draft Submission Note.

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Draft Subm^n note not sent up, in view of later discussions separately Submitted. Ordered to be recorded.

With the gracious approval of His Highness, I proceeded to Bombay last month to attend the meetings of certain Committees of Rulers and Representatives of the States, that had been convened there, on the eve of the Wavell Conference, mainly with the purpose of considering the steps which should be taken to duly safeguard the interests of the States, particularly having in view the changes that were expected to be introduced in British India in the very near future as a result of the discussions that the Viceroy had then been conducting with the representatives of British India. The trend of the discussions appeared to be definitely tending towards the establishment of a National Government with popular backing in British India. Though the Wavell Conference subsequently ended without reaching any agreement, the several matters that were discussed at the Bombay meetings are of special interest as indicating the general lines on which it was considered that concerted action was called for, to ensure that the interests of the States are not allowed to suffer by any unilateral action that might be taken by the Central and Provincial Governments in British India without consulting the States.

2. In the public announcement that had been made by Lord Wavell, it had been made clear that the changes that were immediately contemplated were to be of an <u>interim</u> nature and confined to British India only. Never-

theless, experience of the working of the several measures that had been introduced in recent years in British India, on the ground of war emergency, in respect of matters relating to industries, taxation, controls etc., had shown that any policy adopted by the Central Government in such matters (without previous consultation of States) was bound to affect the States also vitally, and the need was felt for having a suitable machinery to facilitate regular consultations between the representatives of the Government of India and of the States in regard to matters of common concern. The necessity for such consultation would be all the greater, if the constitution of the Central Government in British India were to get changed so as to provide for a more effective voice being given to the representatives of the British Indian people in the formulation of policies and their execution. Under existing arrangements, in case the Central Government or the Provincial Ministries take any action that would affect the rights or interests of an Indian State or its people, the Governor General and the Provincial Governments will not be able, even if willing, to defend such rights or interests effectively, and the pressure of popular opinion in British India will serve to reduce the so-called "Safeguards" almost to a dead letter. If the voice of the States should reach the Government at the Centre only through the mouth-piece of the Crown Department, it is

likely to prove ineffective and perhaps even to be misunderstood. It is therefore very desirable that for this interim period, there should be a forum where representatives of British India and the States could meet and deliberate jointly on policies and measures in respect of matters which are of common concern to both of them, so that a greater degree of understanding of each other's point of view and difficulties could be attained. The need for such a machinery is all the more necessary as the interim Governments are ~~intended~~ expected to deal with measures relating to post-war planning the effect and scope of which will extend to all India.

3. A brief account of the discussions at the several meetings that were attended by me between the 9th and 12th July is appended.

4. I stopped at Poona for a few hours on the 14th instant and visited the College of Agriculture, Poona, in order to have a general idea of the organisation, equipment and curriculum of studies in the College. An interesting feature of the College is the relationship between the Department of Agriculture and the College. Most of the professors are expected to do practical research for the Department, in addition to their normal work in the College. The total term of the course is three years after the first year class in Intermediate, during which students are expected to spend 4½ months in the practice of agriculture. In the course of my conversation with the authorities, I gathered that forestry and agriculture being closely allied subjects, it would

be possible to give instruction in both courses in a single Institution and that an Agricultural College with the addition of a Department of Sylviculture would be able to give training in forestry also. This information is of special interest as the starting of a College for Agriculture and Forestry in Mysore is being considered. A detailed study of the working of the Poona Agricultural College, which till recently had also a diploma course in Forestry, might be useful in examining the proposal under contemplation in Mysore.

(Dewan)

With the gracious approval of His Highness I attended the meetings of the Special Constitutional Committee, the Major States' Committee and joint meetings of the Finance and Industries Committees of States held in Bombay between the 9th and 12th of July 1945.

SPECIAL CONSTITUTIONAL COMMITTEE.

The Special Constitutional Committee met on the 10th, 11th and 12th of July at the Taj Mahal Hotel, Bombay. Some of the meetings were attended only by the Ministers and some by both the Princes and the Ministers. The more important of the questions considered were the desirability and the need for associating the Indian States more closely with the Government of India in the administration of control measures and the ~~schemes of~~ postwar reconstruction schemes, the formulation of minimum standards of administration in Indian States, and the question of taking steps to make it known that the Princes would not come in the way of the political advancement of the country.

The discussions were based on the assumption that the Wavell proposals in their present or a modified form would be implemented, if not immediately, at least a little later. It was realised that the trend of opinion was definitely in favour of the establishment of a National Government with popular backing and that the Indian States could not afford to be behind hand and, in their own interests, and in the interests of their subjects, the Princes would have to adjust themselves to changing times.

Owing to the exigencies created by the war, the Central Government has been assuming more and more powers and laying down policies of general applicability. The scope and effects of

these policies extend to the Indian States also, but owing to the absence of machinery for consultation, their views cannot be ascertained and they have no hand in shaping policy. The question of setting up a suitable machinery * for regular consultation between the representatives of the Government of India and of the States in regard to matters of common concern" was referred for detailed examination to a sub-committee (with a direction that the proposal of the Simon Commission regarding the setting up of a Council for Greater India may be kept as the basis for discussion). The sub-committee recommended the formation of such a Council and suggested that the scope, functions and procedure of the ~~committee~~ Council may be the same as recommended by the Simon Commission with the modification that the total number of members may be 45, of which 15 would be representatives of the Indian States, certain major States having permanent seats and the others to taking seats by rotation and some seats being reserved for the representation of special interests like maritime States. This Council, it was explained, was meant only for the interim period pending the setting up of an agreed constitution for India, and for the primary purpose of associating the Indian States with the Government of India in the formulation of general policies.

The Committee reiterated the necessity to implement the recommendations of the Study Circle* regarding the minimum standards of administration. It was further recommended that if any State was

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was too small to be able to afford the standards, suitable arrangements should be made with bigger neighbouring States to enable the standard of administration to be raised to the necessary level.

It was recognised that sufficient publicity should be given to the progressive views held by the Princes in regard to the political advancement of the country so as to check the present tendency among politicians who make much of the alleged non-cooperative and obstructive attitude adopted by the Princes in all matters directed towards greater political freedom for India.

FINANCE AND INDUSTRIES COMMITTEES OF STATES.

Joint meetings of the Finance and Industrial Committees of States were held on the 9th and 11th July 1945. The most important question considered was the future industrial policy of the Government of India as set out in their recent Statement on Industrial Policy and its effect on the Indian States. It was recognised that in matters like ~~nationalisation~~ nationalisation of specified industries and protection and aid to industries of national importance, the whole of India will have to be treated as a single entity. But it was felt that a clarification was required as to ~~what position and~~ how industries in the States were going to be affected by the policy of the Government of India.

The following conclusions were reached after a detailed consideration of the Statement of the Government of India, the note on the informal discussions held with the representatives of the Political Department on 21st May 1945 and the note prepared by Sir Joseph Bhore on this question. It was conceded that the Central Government had to retain certain powers in the interests of the country and the States were prepared to cooperate with them on certain conditions in implementing their schemes. It was proposed that States should have "adequate voice in shaping the policy and the machinery for implementing the agreed policy in consultation and with the acceptance of States". The system obtaining at present by which

the States are obliged to undertake certain "piece-meal commitments" in the absence of a definite policy was regarded as highly disturbing. It was felt that unless the States are closely associated in formulating policies which are of as much importance to them as they are to the British Indian Provinces they should not be forced to accept them.

In their statement on Industrial Policy the Government of India propose to "nationalise" certain industries and transport systems like Railways. It was not clear whether the term "nationalisation" implies control only by the Centre or whether it includes ownership by the States concerned. This is a matte of great importance calling for further elucidation.

Another matter of importance is the system of licensing of industries, control of issue of new capital and the appointment of tarrif boards and priority boards for the import of machinery from abroad. It was considered that unless the States are taken into confidence and given representation on all these bodies they cannot feel secure. While conceding the necessity for the retention of some form of control over the establishment of new industries or expansion of already existing ones, it was felt that a "priority board" for determining priorities for the import of machinery and other equipment from abroad would be quite sufficient and that there was no necessity for the continuance of control over the issue of new capital.

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The existence of some difference in the levels of taxation between Indian States and British Indian Provinces was recognised, but it was felt that equalisation of levels of taxation at one step would react adversely on the industrial expansion of States. Most of the States are backward industrially and it is very necessary that for some time to come special facilities for industries should be permitted to be given in the States. It was presumed that industries established in the States would get the same technical advice, State aid and other facilities from the Central Government as those in British Indian Provinces. In cases where discrimination is shown between States and Provinces in matters like priorities, supply of machinery and issue of new capital, the States should have the right of appeal to an impartial tribunal whose decisions should be final.

The Committees considered that the points discussed so far are not exhaustive but should be referred to the Planning Department of the Government of India who have already under consideration certain matters which were brought up for discussion in the informal meeting held with the representatives of the Political Department ~~xx~~ on the 21st May 1945.

It was hoped that the points now to be referred to the Government of India together with those already referred to them would assist in the preparation for the subsequent discussions proposed betwee

representatives of the States and those of the Government of India to consider this question in greater detail and to determine the extent of cooperation which the Government of India can expect of the States.

MAJOR STATES' COMMITTEE.

A meeting of the Major States' Committee was held on the 10th July, 1945. The questions discussed were practically the same as those considered at the meetings of the Finance and Industries Committees of States and the Special Constitutional Committee, but with particular reference to the Major States.

I stopped at Poona for a few hours on the 14th instant and visited the College of Agriculture, Poona, in order to have a general idea of the organisation, equipment and curriculum of studies in the College. An interesting feature of the College is the relationship between the Department of Agriculture and the College. Most of the professors are expected to do practical research for the Department in addition to their normal work in the College. The total term of the course is 3 years after the first year class in Intermediate, during which students are expected to spend 4½ months in the practice of agriculture. In the course of my conversation with the authorities, I gathered that forestry and agriculture being closely allied subjects, it would be possible to give instruction in both courses in a single Institution and that an Agricultural College with the addition of a Department of Sylviculture would be able to give training in forestry also. This information is of special interest as the starting of a College for Agriculture and Forestry in Mysore is being considered. A detailed study of the working of the Poona Agricultural College, which till recently had also a diploma course in Forestry might be useful in examining the proposal under contemplation in Mysore.

NOTES OF DISCUSSIONS AT THE MEETINGS.

I. ~~Meetings of the Special Constitutional Committee.~~

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This Committee was set up in May last "to watch developments and suggest such line of action as they may deem necessary", and it met for the first time on 10th July 1945. Subsequent meetings were held on the 11th and 12th July. Some of the meetings were attended only by the Ministers and some by both the Princes and the Ministers. The more important of the questions considered were the following:-

Consult chw of heavy State & Central Govt on matters of common concern

H.J & P

(i) Establishment of a suitable machinery for regular consultations between the representatives of the Government of India and of the States in regard to matters of common concern. This question was referred for detailed examination to a Sub Committee. The Sub Committee recommended that a "Council for Greater India" be brought into being on an informal basis on the lines proposed by the Simon Commission, with the modification that the total number of members may be 45 of which 15 would be representatives of the Indian States, certain major States having permanent seats and the others taking seats by rotation and some seats being reserved for the representation of special interests like maritime States. The scope, functions, and procedure may remain the same as were suggested by the Simon Commission. Reference to this body of policies, legislation and measures in respect of subjects of common concern should be made obligatory by convention. The machinery was only intended for the interim period till the setting up of an agreed Constitution for India.

(ii) Minimum standards of administration.

The Committee reiterated the necessity of implementing the recommendations of the Study Circle regardi

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the minimum standards of administration, which are briefly indicated below:-

H.G.W

"There should be increasing association of the people with the governance of the States and in particular the following measures should be implemented forthwith by the States:-

a) To create Legislatures based upon representation by election with substantial powers.

b) To effect close association between the executive and the legislature.

c) To create an efficient and qualified judiciary independent of the executive.

d) To separate from the expenditure of the State the Civil List of the Ruler and to fix it at a reasonable amount.

e) To ensure similarity of standards at least as compared with the neighbouring provinces in matters like education, medical relief and other activities meant for the wellbeing of the people.

States which cannot ensure the above standards by themselves should do so by suitable arrangements with some of the State or States"

(iii) It was also recognised that sufficient publicity should be given to the progressive attitude of the States in regard to political advancement of the country so as to check the present tendency among politicians who make much of the alleged non-cooperative and obstructive attitude adopted by the Princes in all matters directed towards a greater political freedom for India.

II. ~~Finance and Industries~~ Committees of States.

H.N

Joint meetings of the Finance and Industrial Committees of States were held on the 9th and 11th July 1945. ~~The most important question considered was the future~~ Industrial policy of the Government of India ~~as set out in their recent statement on industrial policy~~ and its effect on the Indian States.

Encl. to H.N

After a detailed consideration of the statement of the Government of India, the note on the informal discussions held with the representatives of the Political Department on 21st May 1945 and

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the notes prepared by Sir Joseph Bhore on this question, the following conclusions were reached:-

(1) The States may agree to offer the fullest possible cooperation for the industrial development of India as a whole on an agreed planned basis and to approximate their levels of industrial taxation to those obtaining in British India within a reasonably agreed period provided that:

a) There shall be no discrimination against the States and their peoples;

b) The States are given special treatment for the development of their resources and encouragement to their nascent industries;

c) The legitimate income from the industrial development of the States remain with them;

d) The States are associated with the implementation and formulation of policies which affect them or with which their cooperation is desired;

e) The States are associated with the interim agencies entrusted with the grant of priorities for import of machinery and authorisation of capital issues.

(2) Attention may be invited to the misgivings caused in the States by the recent policy of the Central Government to secure piecemeal commitments of the States on specific aspects of this question without first settling the basic terms on which States are prepared to cooperate with British India and to initiate the central plans without associating the States with the formulation and implementing of the policies which affect them.

(3) The States cannot be expected to give any final or definite views on the proposals unless they are taken into confidence with regard to details of controls and plan of co-ordination proposed for the various categories of industries mentioned in the statement of the Government of India. In the

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meantime the States should have an adequate voice in shaping the policy and the machinery for implementing the agreed policy.

(4) In any scheme of nationalisation of certain industries that may be agreed to by the States, it will be implicit —

(a) that all undertakings owned by the States including railways, electrical and other public utility services shall be unaffected,

(b) that other industries of national importance established or to be established within a State territory shall be owned and operated by the State Government, and

(c) that no State shall be precluded from extending the plan of progressive nationalisation of its industries other than those comprised in the All India plan.

(5) Before the States can be expected to consider the question of the proposed licensing of industries, they must be given complete details of the plan and the States should be adequately represented on any boards or authorities established in connection with licensing.

(6) It is presumed that industries in the States will receive from the Central Government their due share of State-aid such as technical advise, Government purchase of the products of the industry and assistance in the procurement of capital goods etc.,

(7) There is no justification for continuing the existing system of control by the Central Government over the issue of new capital.

(8) The States should be assured their due quota of whatever machinery may be available to India till the duration of the War and in the post-war period.

(9) Any differences in regard to priorities or the supply of machinery or relating to the issue of

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new capital or to any complaints of unfair discrimination relating to the industrial progress of the States which cannot be settled by negotiation should be referred for decision to an impartial tribunal.

The existence of some difference in the levels of taxation between Indian States and British Indian provinces was recognised, but it was felt that equalisation of levels of taxation at one step would react adversely on the industrial expansion of States (many of which are backward industrially) and it is very necessary that for some time to come, special facilities for industries should be permitted to be given in the States.

It was considered that the points discussed so far were not exhaustive but should be referred to the Planning Department of the Government of India who have already under consideration certain matters which were brought up for discussion in the informal meeting held with the representatives of the Political Department on the 21st May 1945. It was hoped that the points now to be referred to the Government of India together with those already referred to them would assist in the preparation for the subsequent discussions proposed between representatives of the States and those of the Government of India with a view to ensuring the fullest possible cooperation in the sphere of industrial development.

III. Major States' Committee.

A meeting of the Major States' Committee was held on the 10th July 1945. The questions discussed were practically the same as those considered at the meetings of the Finance and Industries Committees of States and the Special Constitutional Committee, but with particular reference to the Major States.

MEETINGS OF THE SPECIAL CONSTITUTIONAL COMMITTEE.

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1. Draft Summary of Proceedings of the Meeting of the Special Constitutional Committee of the Chamber of Princes held on 10th July 1945 in Bombay.

2. Report of the Sub Committee of the Chamber of Princes on

   (i) the proposal to establish a Council for Greater India and

   (ii) the proposal to issue a statement on the attitude of the Princes towards Constitutional and administrative reforms in Indian States.

   (also contains an extract from Vol.II of the Report of the Simon Commission)

~~Note by the Special Constitutional Committee and the resolution passed by it.~~

3. His Excellency Lord Wavell's broadcast dated 14th June 1945 regarding proposals for Interim Government.

4. Letter dated 9th June 1945 from His Excellency the Viceroy to His Highness the Nawab of Bhopal, and his reply thereto dt. 12-6-45

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Papers re: Meetings of the Special Constitutional Committee

Draft summary of proceedings of the meeting of the Special Constitutional Committee held at 10.30 A.M on 10th July, 1945, in the Princes Room of the Taj Mahal Hotel, Bombay.

P r e s e n t

Rulers

His Highness the Nawab of Bhopal (in the Chair)
His Highness the Maharaja Jam Saheb of Nawanagar.
His Highness the Maharaja Scindia of Gwalior
His Highness the Maharao of Cutch.
His Highness the Maharaja Saheb of Bikaner.
His Highness the Maharaja Saheb of Patiala.
His Highness the Nawab Saheb of Rampur.
His Highness the Maharawal of Dungarpur } present by special invitation.
His Highness the Nawab Saheb of Palanpur }
His Highness the Maharaj-Rana of Porbandar }

Ministers

Sir Manubhai N. Mehta
Sir B.L. Mitter
Sir T. Vijayaraghavachariar.
Sir Liaqat Hyat Khan
Mr. N. Madhava Rau
Sardar K.M. Panikkar
Mr. H.S. Malik
Sirdar D.K. Sen
Dr. Dhurandhar
Nawab Aliyavar Jung (by special invitation).

1. His Highness the Nawab Ruler of Bhopal informed the members that Nawab Sir Ahmad Said Khan of Chhattari and Sir C.P Ramaswamy Aiyar had unavoidably been detained from attending the meeting.

2. His Highness the President inaugurated the Special Constitutional Advisory Committee with a brief statement. The main points made in that statement are reproduced in Appendix A.

3. His Highness the Jam Maharaj, in endorsing the remarks of His Highness the President, emphasised the desirability of eliminating any justification for misunderstandings between British India and the States. He stressed the need for the Rulers and Representatives of States to make their contribution, as patriotic Indians, for the advancement of their Motherland.

4. Thereafter, Their Highnesses retired and invited the Ministers to continue informal preliminary discussions amongst themselves. Sir Manubhai N. Mehta was requested to preside.

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Summary of proceedings of the meeting of the Constitutional Advisory Committee held on 11th July, 1945 in the Princes' Room of the Tajmahal Hotel, Bombay.

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P r e s e n t

H.H. the Nawab Sahib of Bhopal - (in the chair)
H.H. the Maharaja Jam Sahib of Nawanagar
H.H. the Maharaja Scindia of Gwalior
H.H. the Maharaja Saheb of Bikaner
H.H. the Maharaja Sahib of Patiala
H.H. the Maharaj-Rana Sahib of Dholpur
H.H. the Nawab Sahib of Rampur

and

Nawab Sir Ahmad Said Khan of Chhattari
Sir Manubhai N. Mehta
Mr. N. Madhav Rau
Sir B.L. Mitter
Sir T. Vijaraghavachariar
Sir Liaqat Hyat Khan
Sir Ganga Kaula
Mr. K.M. Panikkar
Mr. H.S. Malik
Mr. D.K. Sen
Mr. Dhorandar
~~Colonel Verma~~
Lt. Colonel H. Verma

Nawab Ali Yaver Jung was present by special invitation.

~~From 10-30 a.m. to 11-30 a.m. the meeting was~~
From 10-30 a.m. to 11-30 a.m. the Ministers mentioned ~~attended by the Ministers mentioned above~~ above met in the first instance. They generally agreed that the memorandum (Appendix A) may be placed, as a basis of discussion, at the joint meeting of the Rulers and Representatives of States. This was done after 11-30 a.m. when the Princes on the Committee also joined the meeting.

2. There was a general discussion in regard to the points referred to the Committee by His Highness the President in his inaugural address. The following agreed conclusions emerged from the discussion:-

(a) It was desirable in the interest of States, as also of India as a whole, that a suitable machinery may be set up for regular consultations between the representatives of the Government of India and of the States in regard to matters of common concern. The details in regard to the functions, scope and composition of the proposed machinery may be left for further consideration.

(b) Various possible alternatives were discussed and it was generally favoured that, as a first step, it might be advisable to set up a small body to ensure contacts between the representatives of the States and the Members of the Viceroy's Executive Council. Scheduled matters of common concern could be referred to the proposed body by convention once the principle is accepted. Details, however, were left to be worked out after His Highness the President had ascertained the reactions of His Excellency and the British Indian leaders concerned. His Highness the President was requested to make informal contacts with the quarters concerned and to invite such assistance in the matter from other Rulers or Representatives of States as he may need.

(c) It was emphasised that -

(i) the proposed machinery was only intended for the interim period till the setting up of an agreed constitution for India, and

(ii) provision will be made for the association, with the representatives of States, of such advisers and experts as may be necessary in view of the nature of the subjects under discussion.

(d) It was agreed that the statement made by His Highness the President in his inaugural Address to the Committee may be released to the press as an indication of the progressive attitude of the States in regard to the latest development in the country.

(e) The Committee reiterated the necessity of early implementation of the recommendations made by the Study Circle in May last, in regard to constitutional and administrative reforms in the States, which had been accepted by the Special Committee of Rulers.

1. The Ministers on the Constitutional Advisory Committee considered the possible effects on the States of the proposed reconstitution of the Governor-General's Executive Council and the reconstruction of Provincial Ministries under the Wavell Plan. It was agreed to place the following points as a basis of discussion, before the joint meeting of the Rulers and Ministers on this Committee:-

2. Although the change is within the framework of the present constitution, except for one single amendment in the Act of 1935, it is bound to affect the States in many directions. Already, the policy of the Central Government, in matters like industries, taxation, controls, etc., had almost resulted in a virtual federation affecting inter-alia the interests of the States and their peoples without the States having due voice in the formulation of policy. A strong Government at the Centre, broad-based and deriving its strength from popular opinion, is bound to assert itself far more and to pull far greater weight. It will also be able to draw upon the support of the public throughout the country in favour of its policy. In case action by it at the Centre or by the Coalition Ministries in the Provinces affect the rights or interests of an Indian State or its people, the so-called "safeguards" will prove even more illusory than in the past. The Governor-General and the Provincial Governors will be unable, even if willing, to defend such rights or interests effectively, and the pressure of popular opinion and popular Ministers will serve to reduce those "safeguards" to a dead letter. On the other hand, if the voice of the States reaches the Government at the Centre only through the mouth-piece of the Crown Department, it is likely to prove ineffective and perhaps even to be misunderstood. What is required for this interim period is a forum where representatives of British India and the Indian States could meet and deliberate jointly on policies and measures in respect of matters which are of common concern to both of them. Unless there is such a direct approach - an approach which is likely to create a far greater understanding altogether of each other's point of view and difficulties -, the States will be confronted with decisions over a wide field which will have been taken without their consultation even though affecting them profoundly. The need for joint deliberation has become all the more apparent and necessary in view of the fact that the proposed new Ministries will be charged with tasks such as Post-war Planning, and it is clear that the effect and scope of such planning will, and is intended to, extend to all India. The States must in such planning contribute their best for the good of the whole country. The trend of recent policies in the economic sphere has already resulted in the States seeking participation in the formulation of those policies or their execution by the Departments concerned. That is only as far as a few subjects are concerned, and, even with

1. The Ministers on the Constitutional Advisory Committee considered the possible effects on the States of the proposed reconstitution of the Governor-General's Executive Council and the reconstruction of Provincial Ministries under the Wavell Plan. It was agreed to place the following points as a basis of discussion, before the joint meeting of the Rulers and Ministers on this Committee:-

2. Although the change is within the framework of the present constitution, except for one single amendment in the Act of 1935, it is bound to affect the States in many directions. Already, the policy of the Central Government, in matters like industries, taxation, controls, etc., had almost resulted in a virtual federation affecting inter-alia the interests of the States and their peoples without the States having due voice in the formulation of policy. A strong Government at the Centre, broad-based and deriving its strength from popular opinion, is bound to assert itself far more and to pull far greater weight. It will also be able to draw upon the support of the public throughout the country in favour of its policy. In case action by it at the Centre or by the Coalition Ministries in the Provinces affect the rights or interests of an Indian State or its people, the so-called "safeguards" will prove even more illusory than in the past. The Governor-General and the Provincial Governors will be unable, even if willing, to defend such rights or interests effectively, and the pressure of popular opinion and popular Ministers will serve to reduce those "safeguards" to a dead letter. On the other hand, if the voice of the States reaches the Government at the Centre only through the mouth-piece of the Crown Department, it is likely to prove ineffective and perhaps even to be misunderstood. What is required for this interim period is a forum where representatives of British India and the Indian State could meet and deliberate jointly on policies and measures in respect of matters which are of common concern to both of them. Unless there is such a dire approach - an approach which is likely to create a fa greater understanding altogether of each other's poin of view and difficulties -, the States will be con-fronted with decisions over a wide field which will have been taken without their consultation even thoug affecting them profoundly. The need for joint deliberation has become all the more apparent and nece ssary in view of the fact that the proposed new Ministries will be charged with tasks such as Post-wa Planning, and it is clear that the effect and scope o such planning will, and is intended to, extend to all India. The States must in such planning contribute their best for the good of the whole country. The tre trend of recent policies in the economic sphere has already resulted in the States seeking participation in the formulation of those policies or their execution by the Departments concerned That is only as far as a few subjects are concerned and, even with

regard to them, consultation will be largely Departmental in scope. What is needed is joint deliberation over a wider front and on a higher plane.

3. The change proposed under the Wavell Plan, however provisional, is nevertheless the first step towards Central responsibility without the accompaniment of the States' participation. The States cannot, therefore, remain silent spectators of the change. At the same time, they cannot commit themselves to any scheme which may anticipate future constitutional developments of a more permanent character. The only remedy appears to be the creation of a small, deliberative and consultative body, to be brought immediately into being on an informal basis, to which matters of common concern should always be referred by convention. The details could easily be worked out, once the principle is accepted.

4. The proposal for such a body should be put forward now rather than later when, if the Wavell Plan materialises and the Ministries begin to function, the States may, for various reasons, be faced with considerable hesitation on the part of the re-constituted Centre in accepting the proposal. On the other hand, if the proposal is negotiated now and the States at the same time wish success to the Wavell Plan, they will create the proper atmosphere for themselves, both in India and in England, and the proposal will be appreciated both as expressive of the desire to collaborate and as providing a medium of joint deliberation on matters of common concern to British India and the States.

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Report of the Sub-Committee to consider:-

i. the proposal to establish a Council for Greater India, and
ii. the proposal to issue a statement on the attitude of the Princes towards constitutional and administrative reforms in Indian States.

Present:-

Major K.M.Panikkar.

Sirdar D.K.Sen.

Nawab Ali Yavar Jung.

Nawab Sir Liaqat Hyat Khan was also present by invitation.

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1. The paragraphs of the Simon Commission's Report, relating to the proposal for a Council for Greater India, are contained in the Appendix. The Sub-Committee agrees that the proposed body should be brought into being on an informal basis, reference to it of policies, legislation and measures in respect of subjects of common concern to be obligatory by convention. Otherwise, provision would have to be made in the Act of 1935, and no such amendment is likely to be undertaken in the present circumstances. The Sub-Committee also agrees that the subject of Industries, to the extent included in the Federal List, should form one of the subjects within the purview of the Council. The scope, functions and procedure may remain the same as were suggested by the Simon Commission.

2. The Sub-Committee does not consider that all the interests among the States could be represented within the number suggested by the Simon Commission. On the other hand, it is necessary that the Council should

should be a compact, business-like body, manageable in size. Under the proposals of the Simon Commission, the total membership will be thirty, twenty for British India and ten from the States. The Sub-Committee suggests that this number may be enlarged to forty five, thirty seats to go to British India and fifteen to the States. This latter number should suffice to give representation to all the interests among the States.

3. It would suffice if, for purposes of representation, five individual seats were to be given to Hyderabad, Mysore, Baroda, Kashmir and Gwalior, the remaining ten seats to be distributed equally, on a basis more or less similar to the basis adopted for the Ministers' Committee, among the remaining States or groups of States. If this method is found not to accord representation to special interests like the maritime States, the number may be enlarged by two, but the Sub-Committee is in general against enlargement and prefers that while the number may remain the same the method of representation may be such as to afford a place for such special interests as well. Either election on the above basis or selection from among the members of the Ministers' Committee may be resorted to, preferably the former. Provision will have to be made for the co-option of experts where necessary, but the Committee feels that, as far as membership is concerned, the representatives of the States should be persons associated in at least a Ministerial capacity with the actual formulation and execution of administrative and other policies. It is only then that weight will be attached to the opinions of the States' representatives.

4. As regards ii above, the Sub-Committee considers that it would create a good atmosphere if a statement at least by the Consultative Committee is published ~~by~~ on the attitude of the States towards constitutional and administrative reforms. The details may be drafted by Major Panikkar and may be discussed in the Committee itself.

APPENDIX I

Extract from Volume II of the Report of the Simon Commission.

x x x x

NEED FOR CAUTIOUS ADVANCE

234. Federations come about only when the units to be federated are ready for the process, and we are far from supposing that the Federation of Greater India can be artificially hastened, or that, when it comes, it will spring into being at a bound. The practical question is whether at the present stage there are any definite but modest steps which might be taken by way of tentative advance. The creation of the Chamber of Princes, the structure and working of which we have described in our earlier volume, was designed to put an end to the period when the Crown was only able to consult each State separately and individually. Notwithstanding that some of the most important States have held aloof from the Chamber, it has provided a valuable means for joint consultation with the others. While making due allowance for the limited functions of that body, we believe that its existence during the last nine years, and especially the work of its Standing Committee, have prepared the way for some further advance. But the Chamber is not in itself a federal organ, for it is exclusively concerned with Indian problems looked at from the side of the Indian/is through its President, the Viceroy, and the Viceroy in this connection is the representative of the British Crown rather than the head of the Indian Government. What is now needed is some organ, however rudimentary, which will for some purposes, however limited, address itself to the treatment of matters which are of common concern to the whole of Greater India, not from the side of the Indian States alone, nor solely from the side of British India, but from both. Even if the new step is a very small one, it would be of profound significance, should it satisfy this condition. We hope that it may be found possible to make a beginning, and we have three concrete proposals to put forward.

THREE CONCRETE PROPOSALS.

235. First, we should like to see a serious and business-like effort now made to draw up a list of those "matters of common concern;" which are so often referred to, but have seldom been defined, save by the use of one or two obvious illustrations. The making of such a list, in consultation and by agreement, would in itself do much to apply strict tests to a conception which cannot be usefully embraced without adequate definition. It may be that the first list will not be exhaustive, but we are going to propose a method by which further topics could be added to it under suitable safeguards from time to time. Secondly, we should like to see included in the Preamble to any new Government of India act a recital which would put on record the desire to develop that closer association between the Indian States and British India which is the motive force behind all discussions of any eventual Federal Union. It would, of course, be absolutely necessary to make plain in the Preamble (what is at all times acknowledged and understood) that any such association can only come about if and so far as the Indian States desire that it should. And thirdly, we wish to suggest that steps should be taken now to devise the creation and setting up of a standing consultative body containing representatives both from British India and the Indian States, with powers of discussion and of reaching and recording deliberative results on

topics falling within the list of matters of common concern. It is clear that the machinery for joint consultation must precede anything in the nature of executive or legislative action on federal lines. The Butler Committee, in the second part of its Report, has recommended the setting up of special tribunals for adjusting a number of important matters which affect the Indian States and British India alike. We are, as we have already said, not seeking for a moment to go over ground which that Committee has covered; but the question is whether the time may not have arrived to set up some permanent machinery of consultation.

THE PREAMBLE AND THE LIST OF MATTERS OF COMMON CONCERN.

256. The details of this sketch may be filled in by other hands in various ways. In order that what we have in mind may be more clearly apprehended, we propose in this paragraph to develop with more precision, though only as a possible illustration, our ideas of what might be attempted. The Preamble of which we have spoken might contain a recital to the effect that it is desirable to make provision whereby such Indian States as so desire may be associated with British India in the consideration of matters of common concern between the Indian States and British India. The operative clause of the Act might provide that it should be lawful for the Crown to create by proclamation a Council for Greater India for the purpose of consulting on matters of common concern to British India and the Indian States. There would be specific provision inserted that it was beyond the competence of the Council for Greater India to call in question or to discuss (a) the internal administration of an Indian State or of British India, or of any part of it; and (b) the existence and exercise by the British Crown of its functions as Paramount Power. Matters of common concern would be listed in a schedule to the Act. The Council would consist of, say, 30 members, of which 10 would be representative of the States. The majority of the States representatives would be nominated by the Chamber of Princes; the Viceroy might complete the list by invitation, so as to provide for the representation of those Indian States which do not form part of the Chamber. On the side of British India some of the members would be drawn from the Central Legislature by the use of the transferable vote; others would be nominated by the Viceroy. The Political Secretary would be a member ex officio. The Council would be presided over by the Viceroy, or in his absence by one of a Committee of four vice-Presidents, two from the States' side and two out of the contingent from British India. This Committee would assist the President to decide the agenda for meetings of the Council. There would be a Registrar at the head of any necessary secretariat. The various members of the Council would be chosen for a period of, say, five years; for the effective working of the Council and the creation of a tradition as to the part it plays cannot be secured if its personnel is constantly changing. As regards the scheduled list of matters of common concern, we think that the best plan would be to mention certain topics specifically, and to add at the end of the specific list the phrase "together with such other subjects of common concern as the Viceroy from time to time certifies as suitable for consideration by the Council." This provides a power of expansion, and at the same time keeps the list of matters dealt with under proper control. The specific list might include:-

(1) The Customs tariff of British India
(2) The Salt tax.
(3) any other form of central taxation affecting the Indian States.
(4) Railway policy.
(5) Air Communications.

(6) Trunk Roads.
(7) Posts and telegraphs.
(8) Wireless.
(9) Currency and coinage.
(10) Commerce, banking, and insurance, so far as the matters raised affect both the States and British India.
(11) Opium policy.
(12) Indians overseas.
(13) Matters arising in connection with India's membership of, and participation in, the League of Nations.

THE COUNCIL FOR GREATER INDIA

287. We are well aware that what we have written raises many questions on which there may be points of difficulty and controversy. We do not claim to have worked out every detail. Our object is to present a plan which is sufficiently definite to be the subject of discussion, elaboration and amendment, and for this purpose we proceed to give some description of how in actual working such a Council might function. Its discussions would in some cases be in the nature of general debates, and in other cases would refer to concrete proposals. The Council would provide an opportunity for taking the Indian States into consultation about changes in the tariff. Even if contemplated changes could not be disclosed before the Finance Member of the Government of India announces, in presenting his Finance Bill, that they are contemplated, it would still be possible for the Council to meet and discuss the changes proposed before any changes are made. It might request the Viceroy, as its President, to invite the Finance Member to attend the Council and give a further exposition of his plans. The views of the Financial Adviser of an important State might by a similar process be laid before it, even though he is not a member of the Council. The views formed by the Council would be recorded in a Report, which would include the record of any dissenting minority, and this Report should be furnished to the Central Legislature as well as to the Chamber of Princes. We are far from thinking that division of opinion would always follow the line that seperates British India from the States. On the contrary, we believe that it will be found that there will be occasions when common interest and sympathy will cut across these lines. We think that some machinery might be devised by which, at any/in important cases, these views might be expounded to the Central Legislature and to the Chamber of Princes, much in the way in which a Rapporteur acts at the League of Nations. A similar course might be followed with regard to other specific proposals which are before the Central Legislature, whether as Government measures or as Private Bills, in so far as they deal with topics mentioned in the schedule of matters of common concern. It may well be, however that an even more important part of the work of the Council would be concerned with questions of general policy falling within the scehdule of matters of common concern. There will be cases where the Council would appoint a Committee of its own body to sit with a Committee of the Central Legislature for discussing some of these general matters in considerable detail. There will be other cases in which the Council would appoint a Committee of its own body for investigating and reporting upon some aspect of the matters within its ambit. There should be a power to add experts for this purpose. The provision suggested above by which the Viceroy might add other matters of common concern to the list of specific subjects would enable an investigation to be undertaken by a Committee of the Council of the further steps which might hereafter be taken in developing federal relations.

The whole scheme for the Council as we conceive it, is designed to make a beginning in the process which may one

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ds lead to Indian Federation. What we are proposing is merely a throwing across the gap of the first strands which may in time mark the line of a solid and enduring bridge, and we feel convinced that the process must begin in organised consultation between the States and British India, both because such consultation is urgently needed in the interests of both and because it will assuredly foster the sense of need for further developments, and bring more nearly within the range of realisation other steps which are as yet too distant and too dim to be entered upon and described.

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The Special Constitutional Committee was set up last May and will meet for the first time on 10th July,1945, The function of this Committee, as recommended by the Study Circle* is " to watch developments and suggest such line of action as they may deem necessary."

VI
Vide paragraph of Annexure I

2. The most important recent development is the announcement of the Wavell Plan which is reproduced as annexure 2. The gist of Wavel Plan was communicated to His Highness the Nawab Ruler of Bhopal on the 9th June, 1945; a copy of the Viceroy's letter on the subject is reproduced as annexure 3 and the reply of His Highness the Nawab Ruler of Bhopal as annexure 4

3. The main questions which would inter-alia require consideration of the Special Constitutional Committee at this stage are summarised below as a basis of discussion:-

(a) If a National Government is set up at the Centre, what particular action would be required on behalf of the States individually and collectively for the interim period before the introduction of the future constitution of India.

Suggestions for consideration:-

(i) A public statement expressing goodwill of the States towards the National Government and offering it God-speed.

(ii) Ways and means by which representatives of the States may be brought in contact with the representatives of the National Government in the formulation and implementation of policies on matters of common concern to India as a whole which may affect the States such as committees on the lines of the greater Council of India suggested by the Simon Commission and committees on special subjects like external affairs, Defence, industries, communications etc.

(iii) In view of the inafficacy of, and the inadvisibilit to rely on special responsibilities of the Governor-General for the "protection of the rights of the States and right and dignity of the Rulers thereof" the reference as of right to impartial tribunals of all disputes relating in particular to fiscal, financial and economic matters or the interpretation of treaties and agreements relating to such matters which cannot be settled by friendly negotiations.

(b) It has been publicly announced that the Wavell Plan does not in any way alter the relations between the Crown and the Princes. In this connection, the following points may be considered:-

(i) It may be necessary to reiterate publicly at an appropriate stage, as was done by His Highness the Nawab Ruler of Bhopal in his press statement last February, that it is an unjustified criticism of the of the position of the States that their insistance on the treaty rights and on the non-transference of their relationship with the Crown without their consent are intended to set up serious obstacles in the way of India's progress.

As regards the implications of the position that the Crown's relationship with the States should not be transferred without their agreement to any third party, the Special Committee of Rulers have reiterated that there is no intention of withholding consent arbitrarily. In this connection, they have invited attention to the Resolution adopted by the Conference of Rulers in 1930, that this demand was merely " a corollary of the true constitutional position of the States and left the door open for negotiations between the States and British India with a view to arriving at an equitable and satisfactory arrangement on terms fair and honourabl to both.

(ii) In continuation of the discussion which the Princes Delegations had with His Excellency in September last it has been suggested, as approved by the Standing Committee of Princes, that in individual cases directly affecting any Prince, His Excellency the Crown Representative may, before taking extreme measures, consult the Chancellor and two or three other Princes who may be friendly to the Ruler concerned and who may be selected by His Excellency ad hoc as and when occasion arose. It was indicated that this procedure need not be applied in the case of those Rulers who may desire the continuance of the existing arrangements.

It was further suggested that His Excellency the Crown Representative may consult the following panel of Rulers and Representatives of States before deciding on policies in regard to questions affecting the States in general-

1. Chancellor of the Chamber of Princes.
2. Pro-Chancellor -do- -do-
3. One other Prince(or representative) to be coopted from time to time.
4. Chairman of the Committee of Ministers.
5. Vice-Chairman -do- -do-

It was made clear that the proposal mentioned above would not eliminate the necessity of references to individual States nor would it affect the right of any State which may so desire to make individual or special representations. His Excellency has invited further details in regard to this proposal.

4. A special Committee is also expected to examine all questions relating to the position of the States in the long-range constitutional arrangements for India and to complete the preparation of the case of the States for being pursued at the appropria stage. For this purpose, attention may inter-alia be invited to

the following points:-

(i) The main recommendations made by the Special Drafting Committee of the States as approved by the Standing Committee of Princes and the Committee of Ministers(vide paragraph 4 and 5 of the Memorandum of the Secretariat which was laid before the last meeting).

(ii) Certain questions which would require consideration in case it is decided to set up an all-India Union based on the Statute of Westminster(vide paragraph 7 of the Memorandum of the Secretariat laid before the last meeting).

(iii) Need for informal contacts between leaders of public opinion in British India and the Rulers and Representatives of States which may helpt to eliminate many misunderstandin that exist at present and pave the way for their future closer collaboration.

(iv) Need for a clear understanding between British India and the States in regard to industrial and post-war development and of the terms on which the fullest possible collaboration can be achieved with due regard to the interest of all units and of India as a whole(vide paragraph 13 of the Memorandum of the Secretariat laid before the last meeting) and the Resolution adopted by the Special Committee of Rulers on the recommendations on this subject made by the Committee of Ministers already circulated).

(v) The position of Paramountcy in any future constitutional arrangements vide paragraphs 18 and 19 of the Memorandum of the Secretariat laid before the last meeting.

5. Attention of the Committee is also invited on (i) Mr. Amery's statement in Parliament on the Wavell Plan in which he stated that the Cripps Offer of March, 1942 stands in its entirety witho change or qualification, and (ii) the reference made by Professor Coupland and others that the Indian Princes enjoy a unique position to make a real contribution at this juncture towards a solution of the India's long-range constitutional problem. In thi connection, it may be considered whether the Rulers and Represent tives of States can take any action, without being misunderstood in the country, which may assist towards a reasonable settlement of India's constitutional problem without prejudice the fullest freedom of the States to consider all possible alternatives at the appropriate stage when discussions are held.

6. The Committee would doubtless endorse the important points emphasised in paragraph II of the recommendations of the Study Circle reproduced in Annexure I. These points emphasise that the essential fundamental rights which are to be suggested by the States for incorporation in the future constitution of India

as being essential for their continued existence should be stated clearly in terms which may appear fair to the reasonable elements of public opinion in India. Attention in this connection is invited to paragraph 11 of the Memorandum of the Secretariat already circulated wherein the six fundamental rights enunciated by the Drafting Committee and approved by the Standing Committee of Princes and the Committee of Ministers have been stated.

7. The Committee may also suggested steps which may in any future constitutional discussions ensure that the States may maintain the fullest possible cooperation and solidarity on vital matters of joint concern.

8. In paragraph III and IV of Annexure I the Study Circle have made certain specific suggestions relating to internal reforms in the States for being implemented forthwith so that the States may be able to make their full contribution towards the constitutional advancement of India and secure their due place in the future constitutional arrangements. The Committee may make specific suggestions with a view to expedite necessary action being taken on these recommendations where this has not already been done.

9. It is also for the Committee to consider that in order to expedite the work referred to it and with a view to ensuring necessary division of labour and detailed examination of the various aspects of the issues involved whether they would wish to set up any special Sub-Committees.

Annexure I

Resolution.

The Study Circle have carefully considered the Memorandum prepared by the Secretariat on the position of the Indian States in the future constitution of India.

His Majesty's Government have already declared their intention to place India on the footing of a Dominion under the Statute of Westminster and there is urge also in the Commonwealth and Allied countries in favour of a free and self-governing India.

The military and economic requirements of India themselves point towards far-reaching changes in the Indian Constitution, which are certain to effect an immediate transfer of power from British to Indian hands.

Recent moves in the spheres of post-war planning and industrial reorganisation show distinctly that the States are already faced with an attempt to form a virtual economic federation on an All-India scale.

II. Whatever the details of the future Indian constitution may be, and whether or not there will be more than one Union in India, it appears inevitable that it will be of a federal pattern.

The States must make up their minds as to the choice which they will soon be called upon to make. It is essential for the States to bear in mind that -

(a) they will not occupy in the forthcoming discussion the position of vantage which they occupied during the federal negotiations when their accession was made a condition precedent to responsibility at the Centre. The Cripps formula provides and recent developments indicate that British India may become a Dominion even without the adherence of the States. The main reason therefore which previously necessitated accommodating the claims of the States no longer exists.

It must further be emphasised that the war effort of the States is not likely to make up for the purposes of negotiation the loss of the position which the States once enjoyed.

(b) Continuance on the basis of Paramountcy is not a future which can be faced with equanimity, specially when the rest of India comes to enjoy political freedom.

The British Government will not be in a position in a Dominion India effectively to fulfil its obligations of defence or to safeguard the non-acceeding States against economic strangulation or discrimination by the Dominion Government.

The discretionary safeguards provided for in the Act of 1935, which were already more or less illusory, would be altogether inconsistent with a Dominion constitution, and, in the ultimate resort the Crown cannot go to war against itself.

III. The members of the Study Circle wish to emphasise that it is necessary for the States to utilise the present time when gratitude for the war effort of the States is still fresh and there is more inclination than may be found later to support their legitimate claims and aspirations.

It is necessary, therefore, for the States to take immediate steps to make their case understood and appreciated in England and in India and to enlist the goodwill of the British as well as the Indian public.

For this purpose, the States should internally set their own house in order and externally align themselves with the forces of progress.

Nothing can serve to secure an effective voice for the States in the future negotiations unless they establish themselves as well-governed and progressive units, second to none in support of the legitimate aspirations of India. This is all the more essential as many misunderstandings do exist with regard to them both in England and in India, which must, in the interest of the States themselves, be eliminated.

IV. In view of these considerations, it is urged that there should be increasing association of the people with the governance of the States and in particular the following measures should be implemented forthwith by the States:-

(a) To create legislatures based upon representation by election, with substantial powers (the same to apply to Local Government institutions).

(b) To effect close association between the Executive and the Legislature.

(c) To create an efficient and qualified judiciary independent of the executive.

(d) To separate from the expenditure of the State the Civil List of the Ruler and to fix it at a reasonable amount.

(e) To ensure similarity of standards at least as compared with the neighbouring Provinces in matters like Education, Medical Relief and other activities meant for the well-being of the people.

States which cannot ensure the above standards by themselves should do so by suitable arrangements with som other State or States as recommended by the ad hoc (Bikaner) Committee on standards of Administration.

V. It is recognised that a few of the States not only conform already to the above standards but in certain respects have gone beyond them. Moreover, there are some claiming a large proportion of the population of the States which do fulfil many, though not all, of the above requirements. The standards enumerated above are, however, the barest minimum which ought to be attained by all the States.

VI. In addition to the above, the members of the Study Circle suggest that a small committee may, as recommended in paragraph 20 of the Memorandum, be formed to watch developments and suggest such line of action as they may deem necessary.

It is equally essential to make an informal approach in England through select Rulers and representatives of States who should effect contacts and ascertain the trend of opinion in relation to India and the States, while explaining to leaders of public opinion in England the point of view of the States.

VII. The next few months are likely to be the most crucial in the history of the States. The Members of the Study Circle ventura to emphasise that the time for action in the directions indicated above has come and postponement of such action would involve the gravest peril to the very existence of the States.

Annexure 2

PROPOSALS FOR INTERIM GOVERNMENT.

LORD WAVELL'S BROADCAST (14-6-45)

I have been authorised by His Majesty's Government to place before Indian Political Leaders proposals designed to ease the present political situtation and to advance India towards her goal of full self-government. These proposals are at the present moment being explained to Parliament by the Secretary of State for India. My intention in this broadcast is to explain to you the proposals, the ideas underlying them and the method by which I hope to put them into effect.

This is not an attempt to obtain or impose a constitutional settlement. His Majesty's Government had hoped that the leaders of the Indian parties would agree amongst themselves on a settlement of the communal issue, which is the main stumbling block; but this hope has not been fulfilled.

In the meantime, India has great opportunities to be taken and great problems to be solved, which require a common effort by the leading men of all parties. I therefore propose with the full support of His Majesty's Government, to invite Indian leaders both of Central and Provincial politics to take counsel with me with a view to the formation of a new Executive Council more representative of organised political opinion. The proposed new Council would represent the main communities and would include equal proportions of Caste Hindus and Muslims. It would work, if formed, under the existing Constitution. But it would be an entirely Indian Council except for the Viceroy and the Commander-in-Chief, who would retain his position as War Member. It is also proposed that the portfolio of External Affairs, which has hitherto been held by the Viceroy, should be placed in charge of an Indian Member of Council so far as the interests of British India are concerned.

A further step proposed by His Majesty's Government is the appointment of a British High Commissioner in India, as in the Dominions to represent Great Britian's Commercial and other such interests in India.

Such a new Executive Council will you realize, represent a definite advance on the road to self-government It will be almost entirely India and*for the first time be Indians, while an Indian will also be charged with the management of India's Foreign Affairs. Moreover Members will now be selected by the Governor-General after consultation with political leaders; though their appointment will of course be subject to the approval of His Majesty the King-Emperor.

The Council will work within the framework of the present constitution; and there can be no question of the Governor-General agreeing not to exercise his constitutional power of control; but it will of course not be exercised unreasonably.

I should like it clear that the formetion of this Interim Government will in no way prejudice the final constitutional settlement.

The main tasksfor this new Executive Council would be:

First,to prosecute the war against Japan with the utmost energy till Japan is utterly defeated.

Secondly,to carry on the Government of British India, with all the manifold tasks of post-war development in front of it until a new permanent constitution can be agreed upon and come into force.

Thirdly, to consider when the Members of the Government think it possible the means by which such agreement can be achieved. The third task is most important. I want to make it quite clear that neith I nor His Majesty's Government have lost sight of th need for a long-term solution, and that the present proposals are intended to make a long-term solution easier.

I have considered the best means of forming such a Council; and have decided to invite the following to Viceregal Lodge to advise me:

Those now holding office as Premier in a Provincial Government or for Provinces now under Section 93 Government those who last held the office of Premier.

The Leader of the Congress Party and the Deputy Leader of the Muslim League in the Central Assembl the leader of the Congress Party and the Muslim League in the Council of State; also the leaders of the Nationalist Party and the European Group in the Assembly.

Mr. Gandhi and Mr. Jinnah as the recognized leaders of the two main political parties.

Rao Bahadur N. Siva Raj to represent the Scheduled classes.

Master Tara Singh to represent the Sikhs.

Invitation to these gentlemen are being handed to them today and it is proposed to assemble the Conference on June 25 at Simla where we shall cooler than at Delhi.

I trust that all those invited will attend the Conference and give me their help. On me and on them will a heavy responsibility in this fresh attempt to make progress towards a final settlement of India's future.

If the meeting is successful I hope that we shall able to agree on the formation of the new Executive Council at the Centre. I also hope that it will be possible for Ministries to reassume office and again undertake the tasks of Government in the Provinces now administered under Section 93 of the Constitutional Act and that these Ministries will be coalitions.

If the meeting should unfortunately fail, we must carry on as at present until the parties are ready to come

together. The existing Executive Council, which has done such valuable work for India, will continue it if other arrangements cannot be agreed.

But I have every hope that the meeting will succeed. If the party leaders will approach the problem with the sincere intention of working with me and with each other. I can assure them that there is behind this proposal a most genuine desire on the part of all responsible leaders in the King and of the British people as a whole to help India towards her goal. I believe that this is more than a step towards that goal. It is a considerable stride forward and a stride on the right path.

I should make it clear that these proposals affect British India only and do not make any alteration in the relations of the Princes with the Crown Representative.

With the approval of His Majesty's Government, and after consultation with my council, orders have been given for the immediate release of the members of the Working Committee of Congress who are still in detention. I propose to leave the final decision about the others still under detention as the result of the 1942 disturbances to the new Central Government, if formed, and to the Provincial Governments.

The appropriate time for fresh elections for the Central and Prov-incial legislatures will be discussed at the Conference.

Finally, I would ask you all to help in creating the atmosphere of goodwill and mutual confidance that is essential if we are to make progress. The destiny of this great country and of the many millions who live in it depend on the wisdom and good understanding of the leaders, both of action and of thought, British and Indian, at this critical moment of India's history.

India's military reputation never stood higher in the world than it does at present; thanks to the exploits of her sons drawn from all parts of the country. Her representatives at International conferance have won high regard for their statesmanlike attitude. Sympathy for India's aspirations and progress towards prosperity was never greater or more widespread. We have thus great assests if we can use them wisely. But it will not be easy, it will not be quick; there is very much to do, there are many pitfalls and dangers. There is on all sides something to forgive and forget.

I believe in the future of India and as far as in my lies will further her greatness. I ask you all for your cooperation and goodwill."

:Bedi:

Annexure 3

No: 592/9/11

The Viceroy's House,
New Delhi.
June 9th, 1945.

(My dear Nawab Sahib)

I think it right before any public announcement is made to inform Your Highness of the result of my recent discussion with His Majesty's Government on the Indian Political problem.

2. As Your Highness will I am sure agree, it is not possible at present to put forward a comprehensive solution for India as a whole. The Congress and the Muslim League in British India have so far failed to reconcile their differences, and an immediate attempt to draft a final constitution- e.g., for a Federation or Union of Provinces, and States-would certainly not succeed. His Majesty's Government therefore decided that the next move must be of an interim nature only, and must be confined to British India.

3. His Majesty's Government have accordingly authorised me to attempt to form a new Executive Council, from among leaders in Central and Provincial politics. The proposed Council would have a balanced representation of the main communities including equal proportions of Caste Hindus and Muslims. It would work, if formed, under the existing constitution. Its membership would be entirely Indian, except for the Viceroy and the Commander-in-Chief who would retain his position as War Member. This proposal will be announced in Parliament on 14th June, and in a broadcast on the same date I shall propose a meeting of British Indian politicians to consider the formation of the new Council. It will be made clear both in Parliament and in my broadcast that the proposal does not in any way alter the relations between the Crown and the Princes.

4. If the new Council is formed and works successfully, it may later feel able to consider plans for a long-term constitutional settlement. Should that happen, the Princes would of course be called into consultation at an early stage.

5. This letter is for Your Highness' personal information.

(Yours sincerely
[illegible] WAVELL)

Air Commodore His Highness Nawab Haji Muhammad Hamidullah Khan Bahadur, GCSI.GCIE. CVO. Nawab of Bhopal.

Annexure 4

Qasr-i-Sultani
BHOPAL.
the 12th June, 1945.

My dear Lord Wavell,

I thank Your Excellency very much indeed for your letter of the 9th June and offer you my sincere appreciation and gratitude for the courtesy in sending me in advance the gist of the proposal which His Majesty's Government proposes to make in Parliament on the 14th instant.

These proposals relate purely to questions affecting the Government of British India and as such I believe Your Excellency would not except from mean expression of my views at this stage. I shall therefore confine my reply to sending Your Excellency my sincere good wishes for the success of your endeavours in finding a solution for the intricate political problems of my country. Your efforts to gain for India its proper status and position in the British Commonwealth of Nations will, if I may say so, be remembered through generations that are to come, with sincere gratitude. The Princes I need hardly repeat, will always be ready whole heartedly to co-operate with Your Excellency and to assist you to the fullest measure of their capacity and opportunity, in the great task that lies ahead of you of fulfilling the hopes and aspirations of the peoples of this Continent.

I am very glad indeed to note that Your Excellency and His Majesty's Government propose to make it clear that the proposals does not in any way alter the relations between the Crown and the Princes. The assurance given by the Prime Minister in his broadcast of the 9th June on behalf of the British people that they shall ever be mindful of thir obligations towards the Indian States has also given much satisfaction, and I offer Your Excellency my very best thanks for these pronouncements.

May I take this opportunity of thanking Your Excellency for your letter of the 20th March which was received by me after your departure from India for England. Since your return to India, I know, Your Excellency has been extremely busy with questions of great and vital importance and, therefore, I have refrained from troubling you with the affairs of the Princes. I shall await Your Excellency's wishes in this connection.

Yours sincerely,

(Sd.) HAMIDULLAH.

MEETINGS OF THE FINANCE AND INDUSTRIES COMMITTEES.

Proceedings of the Joint Meeting of the Finance and Industries Committees of the Chamber of Princes on 11th July 1945.

Reference papers:

(i) Statement of the Government of India on the Industrial Policy. (Printed pamphlet)

(ii) Notes of Informal discussion held on 21st May 1945 regarding Government Industrial Policy, in the Political Dept.

(iii) Resolution embodying principles proposed by His Highness the Nawab of Bhopal in regard to Industrial Policy and ~~short notes thereon~~ Cooperation of States with British India.

(iv) Memorandum on the question of ensuring to the States their due quota of Plant & Machinery

(v) Note by Sir Joseph Bhore on the statement of the Government of India on Industrial Policy.

II

Papers re: Meetings of the Finance & Industries Committee

Summary of proceedings of the joint meeting of the Finance and Industries Committees held at 2.30 p.m. on 11th July, 1945, in the Princes Room of the Tajmahal Hotel, Bombay.

oOo

P r e s e n t.

1. Sir Manubhai N. Mehta (in the Chair).
2. Mr. N. Madhava Rau.
3. Sir T. Vijayaraghavachariar.
4. Sir Ganga Kaula.
5. Mr. H.S. Malik.
6. K.B. Abdul Qadir Mohammed Hussain.
7. Mr. A.P. Pattani.
8. Mr. K.F. Haider.
9. Mr. D.C. Sahni.
10. Mr. Mohammed Asadullah (Offg.Director of Industries, Hyderabad).
11. Lt. Col. H. Varma.
12. Mr. L.V. Bhatt, Director of Industries, Baroda. and Mir Maqbool Mahmood.

Mr. R.S. Bhatt (Bhavnagar) attended as an observer.

The draft summary of proceedings of the meeting on 9th July, 1945, was considered and approved as follows:-

1. The recent statement of the Government of India in regard to ther future industrial policy was considered with particular reference to its effect on the development of industries in the States. The examination of the statement was facilitated by the comprehensive note received from Sir Joseph Bhore and the papers circulated by the Secretariat.

2. It was decided to make the following recommendations:-

(a) The suggestions made by the Committee of Ministers and approved by the Special Committee of Rulers, in regard to the terms on which the States could reasonably agree to collaborate with British India to the fullest possible extent for the industrial development of the country as a whole on an agreed planned basis, may be urged as a basis of settlement with the Government of India. Attention may be invited forthwith to the grave misgivings caused in the States by the recent policy of the Central Government (i) to secure piecemeal commitments of the States on specific aspects of this question without first settling the basic terms on which States are prepared to cooperate with British India and (ii) to initiate the Central plans without associating the States with the formulation and implementing of policies which affect them and their peoples.

(b) It is noted that the principal points which emerged from the discussion held on 21st May, 1945, between the representatives of certain States and those of the Political Department have been referred to the Planning and Development Department of the Government of India to prepare for the [illegible] for the proposed further discussions on this subject. It may be suggested that the following additional points may also be referred to the Planning and Development Department.

(i) The States cannot be expected to give any final

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or definite views on the proposals unless they are taken into confidence with regard to the details of controls and plans of co-ordination proposed for the various categories of industries mentioned in the statement of the Government of India.

In the meantime, it may be urged that the States should have an adequate voice in shaping the policy and the machinery for implementing the agreed policy in consultation and with the acceptance of States.

(ii) In any scheme of nationalisation of certain industries that may be agreed to by the States it will be implicit (1) that all undertakings owned by a State including railways, electrical and other public utility services shall be unaffected, (2) that other industries of national importance established or to be established within a State territory shall be owned and operated by the State Government, and (3) that no State shall be precluded from extending the policy of progressive nationalisation of its industries other than those comprised in the all-India Plan.

(iii) Before the States can be expected to consider the question of the proposed licensing of industries they must be given complete details of the plan. The States should be adequately represented on any Boards or Authorities established in connection with licensing.

(iv) There is no justification for continuing the existing system of control by the Central Government under the Control Order for the issue of New Capital.

(v) It is presumed that industries in the States will receive from the Central Government their due share of Statesaid, such as technical advice, government purchase of the products of the industry and assistance in the procurement of capital goods etc. mentioned in paragraph 9 of the statement of the Government of India by which the Government propose to assist the industrial development of the country.

3. The meeting unanimously and emphatically endorse the suggestion that the States should be assured their due quota of whatever machinery may be available to India in the duration of the war and in the post-war period. They reiterate that any differences in regard to priorities or the supply of machinery or relating to the issue of new capital or to any complaints of unfair discrimination relating to the industrial progress of the States which cannot be settled by negotiation, should be referred for decision to an impartial tribunal.

4. The points suggested above are by no means exhaustive; they are offered to assist in the preparation for the subsequent discussion proposed between representatives of the States and those of the Government of India with a view to ensuring the fullest possible collaboration in the sphere of industrial development.

5. It may be requested that information on the aforesaid points should be made available to the States atleast one month before the proposed subsequent discussion.

Agenda for the Joint Meeting of the Finance and Industries Committees to be held at 2-30 P.M. on Monday, the 9th July, 1945.

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1. Consideration of the Statement of the Government of India's future Industrial Policy as it affects the States.

   Relevant papers:-

   (a) *A copy of the printed Statement of the Government of India on Industrial Policy.

   (b) *A copy of the Secret note of the informal preliminary discussion on the subject with the representatives of the Political Department held on 21st May, 1945.

   (c) *Resolution of the Special Committee of Rulers in regard to long-range formula concerning co-operation of the States with British India in the matters of industrial development of the country.

   (d) *Memorandum on the question of ensuring to the States their due quota of whatever plant and machinery may be available for India in the duration of the war and in the post-war period.

   (e) Copy of the Secret note by Sir Joseph Bhore on the Statement of the Government of India's Industrial Policy.-

   Section A: Analysis of statement by the Government of India on Industrial Policy (paragraphs 1 to 6).

   Section B: Detailed examination of the statement (paragraphs 7 to 11).

   Section C: General criticism and suggested policy for the States (paragraph 12).

2. Any other items which may be raised by the Members.

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*already circulated. Duplicate copies appended for facility of reference.

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PLANNING AND DEVELOPMENT DEPARTMENT.

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STATEMENT
OF
GOVERNMENT'S INDUSTRIAL POLICY.

PUBLISHED BY THE MANAGER OF PUBLICATIONS, DELHI.
PRINTED BY THE SUPERINTENDENT, PRESS OF THE PRIVATE SECY. TO THE VICEROY, NEW DELHI.
1945.
Price As. 2 or 3d.

The Government of India have issued the following statement on Industrial Policy:—

The Government of India have reached a stage in their planning of industrial development when they consider it would be in the public interest to make an announcement of the conclusions reached by them on various aspects of policy. There has not been time to consult either provincial Governments which are at present constitutionally responsible for industrial development in Provinces or States between whom and British India a high degree of collaboration will be necessary if the maximum results are to be achieved from a vigorous industrial policy. Some of the proposals will eventually have to be placed before the Legislature for approval. Although, for these and other reasons, the conclusions reached are, to some extent, provisional, the Government of India consider that an announcement of their views may help to clear up the uncertainty which appears at present to be impeding plans of development by private industry.

2. Under the Government of India Act, 1935, the development of industries is a provincial subject, but is open to the Centre to declare by law that the development of certain industries under Central control is expedient in the public interest and thereupon, the development of such industries becomes a Central subject. No such Act has in fact been passed by the Central Legislature with the consequence that the development of industries is at the moment wholly a provincial subject. In view of this, some explanation is necessary as to why the Government of India feel themselves called upon to issue a statement of their industrial policy. The reasons are two-fold. In the first place, the general economic policy pursued by the Government of India under their own constitutional powers exercises a profound influence over industrial development. It is a matter of history, for example, that the cotton textile, the iron and steel and the sugar industries have made rapid strides in India largely as a result of the fiscal policy pursued by the Central Government. In the second place, the progress of planning has made it abundantly clear that certain industries must be taken over under Central control in the interests of co-ordinated development. It was indeed contemplated by Parliament, when the Government of India Act was passed, that industries in which a common policy was desirable would be brought under Central control. Government consider that for achieving the foregoing object the following industries should be centralised, but before coming to a final decision they will consult the Provinces and the leading Indian States:—

(*i*) Iron and Steel.
(*ii*) Manufacture of Prime Movers.
(*iii*) Automobiles and Tractors and Transport vehicles.
(*iv*) Aircraft.
(*v*) Ship-building and Marine Engineering.
(*vi*) Electrical Machinery.
(*vii*) Heavy Machinery, such as Textiles, Sugar, Paper, Mining, Cement and Chemical.
(*viii*) Machine Tools.
(*ix*) Heavy Chemicals and fine chemicals, chemical dyes, Fertilisers and Pharmaceutical Drugs.
(*x*) Electro-chemical Industry.
(*xi*) Cotton and Woollen Textiles.
(*xii*) Cement.
(*xiii*) Power Alcohol.

(*xiv*) Sugar.

(*xv*) Motor and Aviation fuel.

(*xvi*) Rubber manufacture.

(*xvii*) Non-ferrous metals Industry.

(*xviii*) Electric Power.

(*xix*) Coal.

(*xx*) Radio Engineering.

When the necessary legislation is passed by the Centre, the Government of India will have direct constitutional authority for shaping the progress of a number of industries of vital importance to the country's development. It may be pointed out, although the point is clear enough, that this arrangement has no long range constitutional implications. It is intended to be in operation for so long as the present Constitution lasts; and to what extent it will survive beyond that period is a matter to be decided by the future.

3. The policy to be pursued by Government must be governed by what they consider to be the proper objectives of industrial development and the steps that will be necessary, in the conditions in which India will find herself after the war, to enable these objectives to be achieved. Government consider that the fundamental objects of industrialisation are three-fold:

(*i*) To increase the national wealth by the maximum exploitation of the country's resources. It is well-known that there are considerable unused resources of man-power and material, and clearly Government policy must be directed towards stimulating their fullest and most effective utilisation.

(*ii*) To make the country better prepared for defence. The experience of two wars has demonstrated the dangers, both to India and to the rest of the Commonwealth, inherent in India's dependence on overseas supplies for vital commodities required for defence.

(*iii*) To provide a high and stable level of employment. At present the volume of industrial employment is comparatively speaking small, but if the country's industrial resources are developed to their maximum possible extent, industrial employment, including employment in ancillary trades and professions, will considerably affect the volume of total employment in the country. Government consider that their industrial policy should be directed towards maintaining employment at the highest possible degree of stability and volume.

It is axiomatic in Government's policy that the additional wealth created by industrial development should be distributed in a manner that may be regarded as socially equitable. Powers must be taken and consciously used to secure this purpose.

4. The attitude of Government towards industry in the past was for many years one of *laissez faire*. Till the war of 1914—18 this policy was maintained in the belief, which was in accordance with current economic doctrine, that industrial progress was best achieved by unregulated private enterprise. This attitude underwent some modification after the last war through the adoption of the policy of discriminating protection. The Secretary of State, Mr. Edwin Montagu, in a despatch to the Government of India in 1919 on the Fiscal Commission report, announced a new policy. "If", he said, "the active participation

by Government in industrial development is to be accepted as one of its legitimate functions a new policy is required.

"With the quickening of political life that will follow the grant of constitutional reforms the demand for progress in administration and social reform may be expected to become insistent, and if progress is not to be hampered by want of funds the taxable capacity of the people will have to be increased. To this end the natural resources of India must be effectively utilised, as new opportunities for the investment of capital present themselves, in order that the standard of comfort of the people may be raised, and the economic strength of the country may increase. Further, as the experience of the past few years has shown that in time of war, India cannot rely on outside sources for her needs, the matter is one in which political expediency, economic advantage and military security are coincident and accord with the interests of the Empire as a whole.

I accept the two fundamental principles, underlying the recommendations of the Commission; first, that in future Government should play an active part in the industrial development of the country; secondly, that Government cannot undertake this work unless provided with adequate administrative equipment and forearmed with reliable scientific and technical advice."

This despatch was soon-followed by the Government of India Act, 1919, under which industries became a provincial subject. The Government of India therefore lost direct interest in industrial development and the Provinces had neither the financial nor the technical resources to stimulate development on any significant scale.

The Government of India consider that the continuance of their existing policy, in the conditions in which India will find herself after this war, will not meet the objectives of sound post-war development. Though industrially stronger than in 1939, India will find herself in a position of relative inferiority. In other countries technological advances have been immense and, as a result of the nature of modern warfare, there has been a striking increase in the total volume of skilled industrial labour. If India is to make rapid headway and if the standard of living of the masses is to be effectively raised, a vigorous and sustained effort is necessary in which the State no less than private industry must take a part.

5. Government have decided to take positive steps to encourage and promote the rapid industrialisation of the country to the fullest extent possible. They attach particular importance to the development of those industries which constitute the foundation of modern industrial life, such as the iron and steel industry, the heavy engineering industries, the machine tool industry, the heavy chemical industry and so on. But while the development of these industries must take high priority, it must form part of a balanced plan in which due place is given to consumption goods industries. It is clear that if progress is to be achieved, the development of industry must be planned by Government in co-operation with industry and every effort made to make the plan effective.

6. The formulation of a tariff policy appropriate to the post-war needs and conditions of the country is under active consideration. The subject, however, is one of great complexity, and will require a little further time for the Government of India to determine its policy and devise the machinery for implementing it. In the meantime, the position of industries which have been established or developed in war time requires consideration. Some of these are covered by the announcement made in 1940 in regard to the grant of an assurance of post-war

protection to essential war-time industries. Outside the scope of this announcement, however, lie a large number of industries which have helped to sustain the national economy during an exceptionally difficult period. The provision of assistance to or protection of such of these industries as have been established on sound lines is likely to assume a measure of urgency during the period of transition. Government propose to set up machinery without delay for the investigation of the claims of such industries for assistance or protection. This is a short-term measure pending the formulation of long-term tariff policy and the establishment of a permanent machinery for the purpose.

7. (*i*) A primary point in industrial policy is the extent to which the State will take part in industrial enterprise. In India, ordnance factories, public utilities and railways together forming a considerable proportion of the total industrial enterprise are already very largely State-owned and State-operated. This arrangement will naturally continue. Further, Government have recently decided that the bulk generation of electric power should, as far as possible, be a State concern. This decision falls within the existing pattern of State and private enterprise. Apart from ordnance factories, public utilities and railways, basic industries of national importance may be nationalised provided adequate private capital is not forthcoming and it is regarded as essential, in the national interests, to promote such industries. For the purpose of Government policy, basic industries can be defined as including aircraft, automobiles and tractors, chemicals and dyes, iron and steel, prime movers, transport vehicles, electrical machinery, machine tools, electro-chemical and non-ferrous metal industries. It is contemplated also that Government may take over certain industries in which the tax element is much more predominating than the profit element and it is necessary and convenient for the State to take over the industry. An example of such action in the past is "Salt Manufacture".

All other industries will be left to private enterprise under varying degrees of control. There may be no control except such as is required to ensure fair conditions for labour, in the case of such industries as those catering for ordinary consumers' demands and subject to free competition, while in the case of industries of a semi-monopolistic nature or which control scarce natural resources there may be a stricter control varying with the circumstances of each case.

The views expressed in this paragraph regarding the scope of nationalisation will be discussed with Provinces and also with the more important Indian States and a further statement issued as to whether the scope should be enlarged at all and if so to what extent.

Within the field considered open for State enterprise, the question whether the existing units which are privately owned should be taken over by the State will be examined on the merits of each type of each case. The Reconstruction Committee of Council has decided in regard to Electricity undertakings that, as licences fall due, they will as far as posible be taken over by the State or quasi-State organisation.

The case of coal will be examined and dealt with separately.

(*ii*) Certain industries of national importance such as Ship-building and the manuafcture of locomotives and boilers will be run by the State as well as by private capitalists.

(*iii*) Normally State enterprises will be managed by the State. In special cases the possibility of management through private agency for a limited period may have to be explored.

(*iv*) In some cases, State enterprises may be operated through public corporations. In order to gain experience of management through public corporations, further experiments will be tried.

Government assistance to industry.

8. Government have a primary responsibility, which they propose to discharge without delay as soon as war conditions allow, for developing certain pre-requisites of industrial progress. One of them is the development of transport facilities. This is a matter in which both Central and Provincial Governments as well as the Indian States are vitally interested and steps to ensure a co-ordinated policy have already been initiated and made considerable headway. Another pre-requisite is the development of power. The Government of India have made good progress in ensuring co-ordinated development in this field. In many cases, power schemes—particularly where they are combined with irrigation—are the primary responsibility of Provinces, but where regional projects, which overrun Provincial and State boundaries, are considered necessary, the Government of India are taking action for the development of resources on a regional basis. The survey of mineral resources is another field where the responsibility falls squarely on the Central Government. Steps are being taken to extend the Geological survey and to put it on a footing where it can be of the maximum service to the country. Another pre-requisite of industrial progress is scientific and industrial research; the Government of India have already devoted considerable attention to it and they propose to take all steps which their resources will allow for seeing that it is maintained at a high level. Technical education, particularly through high grade technological institutes, and technical training of personnel required for skilled employment are also matters in which the Government of India have initiated action which will directly assist industrial progress.

9. In addition to discharging their responsibility for thus laying the foundation of industrial progress, the Government of India are prepared to assist industry in one or more of the following ways:—

(*i*) Government will take part either by making loans or by subscribing a share of the capital, in industrial undertakings which are considered to be of importance to the country's development, but for which adequate private capital may not be forthcoming. Within this category might fall such industries as those manufacturing air-craft, automobiles and tractors, chemicals and dyes, iron and steel, prime movers, transport vehicles, electrical machinery, machine tools, electro-chemical and non-ferrous metal industries. This list will be modified from time to time as circumstances warrant. Industries receiving this type of assistance will be subject to a greater degree of Government control than others. For example, Government might require representation on the Board of management and that their sanction should be obtained for incurring certain types of expenditure and for certain appointments.

Government might provide in suitable cases capital equipment like buildings, services and/or machinery on terms to be settled on the merits of each case. This might in certain cases take the form of bulk Government orders for capital goods which might then be allocated to industrialists on suitable terms.

(*ii*) In special cases, industrial enterprise will be encouraged by guaranteeing a minimum dividend on capital or undertaking to meet revenue losses, for a fixed number of years, subject to the condition that Government would have a voice in the management and that a ceiling will be fixed for the return on capital.

Where this procedure is followed, profits in subsequent years over and above the ceiling will be appropriated towards returning the funds paid by Government and after this has been done, such excess profits as continue to accrue will be divided by the Government and the Company in agreed proportions.

(*iii*) Government will be prepared to give adequate financial support to research organisations set up by Industrial Associations representing organised industries and to provide for grants to Universities for approved schemes of research. Such assistance would be in addition to direct Government organisation of research as for instance through the Council of Scientific and Industrial Research.

(*iv*) Subject to reasonable safeguards as to quality and price, Government will continue to encourage Indian industry by buying its products in preference to others.

(*v*) The Government of India are examining the question of the promotion of an Industrial Investment Corporation or a similar institution.

(*vi*) Government will undertake to examine from time to time, the tax system with a view to ensuring that, while securing the ends of social justice and national budgetary interests, the taxation does not tend to act adversely on development.

(*vii*) Government will assist in the procurement of capital goods required by industrialists. They propose to set up an organisation in the U.K. and in the U.S.A. for this purpose.

(*viii*) In certain branches of industry, the advice of experts is particularly essential. Government will help in making the services of such experts available to industry.

Licensing of industry.

10. Government have come to the conclusion that they must take power to license industrial undertakings. They have at present no power except for emergency war-time controls, to regulate the growth of industry; normally a person may put up a factory wherever he likes and may manufacture in it whatever commodity he chooses. There are, of course, local laws which regulate the size of the buildings, the proportion of open space, public health needs and so forth and it is possible under these regulations to refuse permission to put up a factory building, but such refusal cannot be based on considerations of industrial development. One effect of this unregulated freedom to promote industrial enterprise has been the concentration of industry in certain areas for instance, the manufacture of cotton textiles has been concentrated in Bombay and Ahmedabad; sugar in the United Provinces and Bihar; paper in Bengal. In some cases, there are good grounds for the concentration of particular industries in particular areas, but in many cases, it has been the result of fortuitous and haphazard growth. There are vast areas in this country which, though suitable for industrial development, have not been developed because industry has tended to flow in particular channels.

11. The effects of such concentration are economic, social as well as strategic. It seems unsound from the strategic point of view that so large a proportion of industry should be concentrated in a few cities which might well be vulnerable to attack. On the social side it is clear that concentration creates housing problems of a most acute type. Perhaps, an even more important consideration is that concentration deprives other areas of the country of the beneficent effects of

diversified economy. Lastly, it is not clear that concentration is necessarily economically sound. The markets for textiles, for instance, are situated all over India, and cotton, the main raw material, is also grown in various parts of India. From the point of view of the consumer, it would obviously be right to cut out unnecessary transportation costs and to locate manufacture where both the raw material and the market are situated. Even where concentration appears relatively cheap on the basis of financial costs of production and distribution, it would, in many cases be found, in the long run, both socially and economically cheaper to disperse industry, if regard is paid to the benefits of a widely spread industrial structure and its integration with agriculture.

12. Control over development would be necessary from another point of view. In an unregulated industrial economy there is likely to be a tendency for capitalists to go in for schemes which promise quick returns. This will lead to lopsided development— a scramble for some industries, with the danger of over-production and excessive competition and inadequate attention to other industries which are equally necessary in the national interest. To overcome this difficulty it would be necessary to fix targets, to allocate them on a regional basis and to see that these targets are achieved.

13. As Government has no authority at present to do this, they will have to take powers by legislation. Government propose that they should take power to license the starting of new factories and the expansion of existing factories, for, without this power, planned industrial development will be quite impossible. At the same time in order to avoid unnecessary delays it is proposed to set a monetary limit to the plants or projects requiring licence so that very small plants, moderate extension of existing plants or replacements which do not add to output should not be subject to licensing. Details of this legislation are under consideration. Even on a preliminary examination, it is manifest that the power proposed to be taken by Government must be used in a manner that will command general public confidence. It is equally clear that the administration of the licensing system must be such as to assure Indian States that their legitimate desire for industrial development is not overlooked. It is accordingly proposed that a Board should be constituted at a high level to advise the Central Government in the matter of granting licences for industries specified in paragraph 2 above. . Details of the personnel of the Board, its function, and other connected matters will be decided later.

Other Controls.

14. In a planned economy it is impossible to do without controls. Government consider that such controls should be the very minimum required. They propose that apart from licensing, control should be undertaken to achieve the following objects:—

(*i*) To secure balanced investment in Industry, agriculture and the social services. It will be necessary, after the war, to ensure that the available capital resources are utilised on a balanced plan of agricultural, industrial and other development and that inside the field of industrial development, a balance is kept between the manufacture of capital and consumer goods. Agricultural development will be undertaken almost wholly under the auspices of the State. This is because the bulk of the holders of land are poor and cannot themselves finance, at any rate, initially, improvements such as contour bunding and irrigation by lift pumps. In many cases it

(b)

SECRET

An informal discussion on the subject of the Central Government's industrial policy was held with representatives of the more industrialised Indian States in the Political Department on 21st May 1945. The following were present:-

Baroda	- Mr. R.G. Allan
Gwalior	- Major Sardar K.D. Mohadik,
Kashmir	- Khan Bahadur Mirza Jafar Ali Khan,
Mysore	- Mr. J. Appajigowda.
Bhopal	- Mr. K.F. Haider, Nawab Sir Liaqat Hayat Khan (in place of Mir Maqbool Mahmood).
Indore	- Capt. H.C. Dhanda,
Travancore	- Mr. G. Parameswaran Pillai, advised by Dr. Moudgill
Rampur	- Col. Verma
Political Department	- Sir Francis Wylie, Political Adviser, Mr. L.C.L. Griffin, Political Secreta Major G.H. Cooke, Deputy Secretary(We

2. The basis of the discussion was the Central Government's "Statement of Government's Industrial Policy".

3. Opening the discussion the Political Adviser explained that the intention was to keep it entirely informal. From the time when these proposals first came to be agitated by the Central Government the Political Department had realised that if they were to be translated into action the Indian States were closely- indeed vitally- concerned. Plans of this kind if they were to be effective must be country wide. The controls on which they rested must therefore be operative in the Indian States areas and the Governments of the Indian States must for this reason be associated as intimately as possible not only with the final formulation of the policy but with the practical steps subsequently to be taken to carry the policy into effect. Such a fundamental alteration in the existing economic shape of things in India opened wide fields for discussion and compromise. For this reason it was felt in the Political Department that the most expeditious way of contracting the area for discussion and eliciting the main immediate reactions of the Indian States was to hold this informal Conference. There was no question of reaching decisions on any part of the problem. The discussion would in fact bind nobody. The Political Adviser however undertook to bring to the notice of the Planning and Development Department the principal points which emerged at the discussion. It was made clear that none of the Indian States represented was in any way estopped from raising any further points which might occur to them at a later stage of the discussions. This being so there was no need for an agreed record of the talk. A copy of the note which the Political Adviser intended to prepared for the information of the Central Government would be sent to all the States represented at the meeting. That was all that seemed to be required.

4. The following is a list of the principal points which emerged:-

(a) it was recognised that the constitutional point discussed in paragraph 2 of the statement was principally a matter for the Central Government and the British Indian Provinces to settle. The States' representatives were of the opinion however that the list of the industries which the Central Government proposed to bring under their own control was unnecessarily exhaustive. The description of some of the items was also either ambiguous or too all embracing;

(b) on the question of State ownership as opposed to private enterprise which is discussed in paragraph 7 of the statement the States' representatives wished to know:-

(i) whether if the Central Government decided to make e.g. the steel industry State owned they would wish to acquire existing Steel Works in Indian States or would be satisfied if the State concerned itself acquired the Works; and

(ii) in the latter event what would be the exact method by which Government ownership in British India would be coordinated with State ownership in the Indian States. Arising out of this the representatives enquired whether the word "Government" as it appeared in the statement meant the Central Government only or the Central and Provincial Governments of British India;

(c) in the case of an industry which received assistance from the Central Government in British India as proposed in paragraph 9 of the statement the representatives enquired what would be the attitude of the Central Government to a similar industry situated in an Indian State whether the latter were receiving assistance from the Government of that State or not;

(d) over the question of licensing-paragraphs 10-13 of the statement-the general feeling of the States' representatives was that for constitutional and other reasons it was too soon to introduce such a system in India but they insisted that if it was introduced then the proposed Licensing Board should have a directive to the effect that the existing backward position of the Indian States in the matter of industrial development must be recognised and that until this leeway had been made up specially favourable treatment must be accorded to industrial proposals emanating from Indian States;

(e) about control of capital issues it was suggested that if the system of controls was not to become unduly harassing and cumbersome as many functions as possible should be entrusted to one agency and that the Licensing Board should for instance have the power to authorise automatically the floatation of loans by any party which had succeeded in securing a license to open a factory at an approved site or in an approved neighbourhood.

5. The above points will now be brought to the notice of the Planning and Development Department in preperation for further discussions with representatives of the Indian States. These discussions cannot for various reasons now take place much before September but due notice will be given to all concerned as soon as it is possible to fix even an approximate date.

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Resolved that the original formula (Appendix A) revised in the light of the recommendations (Appendix B) made by the Committee of Ministers may be redrafted so as to embody the following principles proposed by His Highness the President and approved by the meetings;-

The States may agree (1) to offer the fullest possible co-operation for the industrial development of India as a whole on an agreed planned basis and to approximate their levels of industrial taxation to those obtaining in British India within a reasonably agreed period provided that-

(a) there shall be no discrimination against the States and their peoples;

(b) the States are given-

(i) special treatment for the development of their resources (including the right to give legitimate inducement) and encouragement to their nascent industries (through lower taxation and other legitimate means, and)

(ii) (more than one third quota of the available machinery etc. in order to make the leeway of industrial progress;)

(c) the legitimate income from the industrial development of the States remains with them;

(d) the States are associated with the implementation and formulation of policies which affect them or with which their co-operation is desired.

.....

Appendix A.

The States would generally agree that there should be a planned industrial development of India in the best interest of the country as a whole and ensuring fair treatment to all units and their peoples and special assistance to industrially backward areas.

The States no less than British India must in the existing circumstances retain the freedom to determine the form and quantum of taxes on industries within their territories. The incident of taxes on industries, direct and indirect, in British India and Indian States should, in a period of three years or such other short period as the Standing Committee may suggest, be such as not to give unfair advantage, through material disparity in incidence of such taxation to an industry in any State over similar industries in British India or vice versa, provided that -

(i) there shall be no discrimination against the States in the matter of establishing industries, and the States being generally backward in industrial development are assured special assistance from the Tariff Board and any other authority that may ultimately be set up till they reach the same level of industrial progress as British India;

(ii) the States shall not be prevented from adopting measures covered by the policy already adopted by the Government of India which was recommended by the Tariff Commission for giving aid to nascent industry in order to make up the leeway in industrial progress;

(iii) the States shall find adequate representation on the Tariff Board or any other bodies that may be set up to determine the location of industry, protection to industr or any other broad questions of policy affecting the welfare of industries and it is understood that the principle and policy for controlling location of industry will apply to the States only after they have been mutually agreed between British India and the States;

(iv) it shall be open to British India or an Indian State to refer cases of alleged unfair advantage due to incidence of industrial taxation to an impartial tribunal whose decision shall be final and binding on both parties;

(v) restrictions on the flow of capital from British India to Indian States and vice versa shall be removed by British India and the States concerned as soon as the level of industrial taxation approximates.

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APPENDIX B.

Recommendations of the Committee of Ministers.

The Committee gave careful consideration to the formula reproduced in Appendix A to the Memorandum on this item, and while generally agreeing with the spirit of that formula, wish to invite particular consideration of the following points:-

(a) The Committee consider that it would be impossible for all the States to approximate their incidence of taxation to the levels obtaining in British India within a period of 3 years or any such short period and that it would be totally unreasonable to ask them to do so in view of the following reasons:-

(i) It has taken British India many years to attain a stage of industrial and commercial development which can stand the existing incidence of taxation. The States generally are comparatively undeveloped both industrially and commercially and cannot be expected to make up within the short period of 3 years the very considerable leeway in this matter

(ii) It is essential that if a balanced industrial plan for the whole of India is to be achieved in accordance with the declared intentions of the Government of India sufficient time must be given to adjust fiscal policies and such conditions created as may enable the States to make up the leeway in industrial progress.

(b) The words "as soon as the level of industrial taxation approximates" at the end of proviso (v) to the formula at Appendix A should be deleted.

2. "The resolution of the Special Committee of Rulers refers to the necessity of ensuring to the States their due quota of whatever plant and machinery may be available for India in the duration of the War and the post-war period. This question requires early and careful consideration. A separate Memorandum on the subject is appended to serve as a basis of discussion".

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Memorandum.

It is essential for the States, in their own interest as also in the interest of India as a whole to explore and utilise the fullest possibilities of the development of their natural resources. To such development the States must look in an increasing measure for raising the economic standard of the life of their people for relieving pressure on land, for providing employment for their demobilised soldiers and for the growing requirements of progressive administration particularly in the Post-war period. The industrial development of the States is dependent on their being assured their due quota of whatever machinery and plant is available to India in the duration of the war and in the Post-war period and on their obtaining necessary priorities for the import of the requisite machinery and plant.

2. The Committee of Ministers have repeatedly emphasised that the States should be allotted their due quota of available machinery and plant and this suggestion has been pressed by His Highness the Chancellor and the Standing Committee of the Chamber of Princes held on 23rd March, 1944, His Highness the Chancellor asked that the Political Department should ascertain for the information of the States what arrangements were envisaged for the procurement of machinery for the Industrial Development of India after the war and that they should make arrangements to ensure that a due share of what could be procured was made available to the States. The Political Adviser undertook to obtain and communicate the required information and to take necessary action to bring about a satisfactory arrangement. It was stated that the matter was already under the close study of the Central Government, and the Political Secretary reminded Their Highnesses that, following on the activities of the Electrical Commissioner with the Government of India, a long list of electrical power plant required for British India and for Indian States after the war had already been sent to England with a view to stating India's claim now in whatever could be produced after the war.

/on the quarters concerned. At the meeting of the Standing Committee.

3. Later, on a reminder being sent on the subject, the Political Adviser informed His Highness the Nawab Ruler of Bhopal as per relevant extract quoted below:-

"Coming to the points raised by Your Highness in your letter of April 17, I would as regards the lease/le. statistics (of plant and machinery supplied to British India and the States respectively) invite a reference to my letter No: F.17(16)-IB/44, dated October 9, 1944. I still do not see how this information will forward the objects which we are aiming at and its compilation would involve immense labour to the over-strained departments of the Central Government which have to cope both with the difficulties of the present time and with planning for the future. As regards tractors, detailed explanations have been sent to the States, through the usual channels, at the end of last December how to set about ordering their requirements, except that the Central Government communicated direct with a few States whose demands were fairly substantial. The procedure for the importation of capital goods has been explained in a Press Note and accompanying documents, copies of which were forwarded to the States, again through the usual channels, in January last. It is certainly not the intention that there should be any discrimination between British India and the States in this matter. I have been much

concerned in all cases of this kind to ensure that there is none and if Your Highness will give me particulars of any case where there appears to have been discrimination I will take it up at once ..... In reading over the correspondence I cannot help feeling that we should not look on this question of obtaining machinery as though India were divided into two distinct areas, British India and the Indian States, and as one to be solved by allotting a definite percentage of the machinery which comes to India to the Indian States. Nor do I think that any workable arrangement would be made on these lines. What is important is that, so far as possible, each State should get what it really requires in the way of machinery. I am glad to say that I continue to receive evidence of the fact that, where concrete demands emerge from a State, they are being effectively dealt with very often onthe initiative of the technical officers of the Central Government."

4. In this connection, attention is also invited to the suggestion made by the Committee of Ministers at their meeting held at Hyderabad in November, 1944, that a small body consisting of one representative of the States, one from the British India and an Umpire to be selected by them in case of disagreement may be set up to allocate the quota of available machinery between British India and the States and that a separate machinery may be constituted for the distribution of the quota of the States to the States inter-se.

5. The Joint meeting of the Finance and Industries Committee of the States is invited to examine the implications and details of the position stated in paragraphs 3 & 4 above and to make specific suggestions with a view to ensuring to the States their due quota of whatever machinery and plant is available to India in the duration of the warand in the Post-war period.

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Note by Sir Joseph Bhore, KCSI., KCIE.,
on the statement of the Government of India
on Industrial Policy.

Section A. Analysis of statement by the Government of India on Industrial Policy.

1. I will attempt to set out the line of reasoning which seems to be implicit in the Government of India's Statement and to provide a larger measure of logical sequence in the principles and arguments on which the new Policy appears to be based than is discernible on a first reading of this document.

The following propositions form the frame work of the Statement:-

2, I. Industrial development is essential for the country

(1) to "increase the national wealth by the maximum exploitation of the country's resources". Without such increase, national progress must be attenuated and unsatisfactory;

(2) to make the country better prepared for defence;

(3) to provide employment and maintain it "at the highest possible degree of stability and volume".

3. II. Industrial development, if it is to yield optimum results, must be planned. Development must be co-ordinated and controlled to secure

(1) the most fruitful use of the limited capital available;

(2) well balanced and sustained progress in all fields of industrial production;

(3) equitable distribution of the additional wealth created without which sound development would be jeopardised and national well being, in its widest sense, would not be ensured.

4. III. Planned development of the country as a whole can only be secured by a single authority and the Government of India is the only suitable authority to exercise the necessary direction and control. The general economic policy pursued by the Government of India under its own constitutional powers exercises a profound influence over industrial development in the country. This is one reason why important industries should be in this Government's general sphere of control.

5. IV. The co-ordinated direction and control involved in planning are to be exercised in the following ways and through the following means:-

(1) Certain industries of great importance must no longer be left to the Provinces but must be brought under Central Control if a co-ordinated policy for all India is to be followed in respect of them. These industries are specified in the tentative list in paragraph 2 of the

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Statement beginning with "Iron and Steel" and ending with "Radio Engineering".

(2) Certain industries like ordinance factories, public utilities; railways, bulk generation of electrical power and salt manufacture should be owned and operated by the State.

(3) Certain "basic" industries of national importance may be nationalised "provided adequate private capital is not forthcoming and it is regarded as essential in the national interest to promote such industries".

A list of such basic industries is given in paragraph 7(1) of the Statement and begins with "aircraft" and ends with "non-ferrous metal industries".

(N.B.- The proviso above is of special importance).

(4) Licensing of new industries and of expansion of existing factories.

(5) Control of capital issues.

(6) Control over industry in order

(a) to secure fair conditions for industrial workers;

(b) to prevent excessive profits to industry;

(c) to ensure quality of industrial products;

(d) to ensure the avoidance of unhealthy centration of assets in the hands of a few persons or of a special community;

(e) to require technical training of personnel, especially in the interests of minorities and backward communities.

6. V. In order to promote rapid industrialisation to the fullest possible extent, certain aids and protection to industries are proposed through the following measures:-

(1) Through a suitable Tariff Policy to be formulated after further consideration. In the meantime, as a short term measure, machinery will be at once set up to consider the claims to protection of "War" industries and those which have sustained the national economy in the past years and have been established on sound lines.

(2) Through the provison of certain pre-requisites of industrial progress and in certain other ways as for instance through

(a) development of transport facilities,

(b) development of power,

(c) provision of facilities for the survey of mineral resources,

(d) scientific and industrial research,

(e) technical education,

(f) Government making loans or subscribing a share of the capital in certain classes of cases and subject to certain conditions (vide paragraph 9(i) of the Statement).

(g) Government guaranteeing a minimum dividend on capital or meeting revenue losses in certain cases and under certain conditions (vide paragraph 9(ii) of the Statement).

(h) Government examining from time to time the tax system with a view to ensuring that taxation does not tend to act adversely on development subject however to requirements of social justice and the national budget,

(i) granting certain other subsidiary help and assistance indicated in Paragraph 9 sub-sections (iii), (iv), (v), (vii) and (viii).

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Section B. Detailed examination of the Statement.

7. I venture to offer the following comments on the Statement of Policy. The remarks which follow relate to the paragraphs and sub-paragraphs in the preceding Section A

Para 2.I supra. The sentiments expressed here appear to be unexceptionable. The States should not find it difficult to endorse these views because they have themselves constantly sponsored such a policy of industrial development.

8. Paragraph 3.II supra. The general policy of control enunciated and the reasons on which such a policy is based may receive acceptance but it should be subject to a caveat which will be dealt with more appropriately in the succeeding paragraph.

9. Paragraph 4.III supra. The Government of India propose to take power to decide finally what industries shall come into existence and where they shall be located and to a more limited extent to lay down some at least of the conditions under which they should be run.

These are indeed large powers. So long as the Government of India exists in its present form and is not responsible to any authority in this country, such powers must be regarded as a potentially dangerous weapon. It is true, the Statement makes it clear that the Policy outlined is definitely a short term measure which may be upset or profoundly modified as the result of the future constitutio Nevertheless, serious harm may be done even in a short period of time by the executors of a policy novel in character which they know is liable to be reserved or modified at no distant date and when they themselves are not responsible to any authority in this country either for the framing or implementation of that policy.

Then these immense powers are sought to be applied over a Sub-Continent. I am open to information on this point but except as a war measure and except perhaps in one or two cases where the national economy has been deliberate mobilised for war purposes, I doubt whether such far reaching controls, as a normal peace time policy, have been

attempted anywhere in the world over so vast an area inhabited by so immense a population with sectional interests which may prove so gravely divergent. Control on such a scale implies the inevitable infliction of a large army of bureaucrats on industry and on the people with all the attendant evils of such a course.

I do not recite these arguments to support a case against control by the Government of India. Subject, to what I shall have to say later in this note, however, I suggest that what has been said above constitutes a sufficiently cogent reason for urging (1) that the very minimum control necessary for the implementation of a generally accepted policy should be imposed, (2) that the units concerned, the Provinces and the States should have an adequate voice in shaping the policy on which control is based, and (3) the machinery for the exercise of control should only be constituted after the fullest consultation with the Provinces and States and it should meet with their acceptance.

So far as States are concerned, unless their interests are fully safeguarded, they may easily go to the wall, and this applies with particular force to such States as are still far behind in the industrial race. Apart from other consideration, British India has some means of influencing the Executive Government of India. Although this Government owes no responsibility at present to the Indian legislature, nevertheless British India may, and indeed sometimes does, influence the Government of India through vocal criticism in the Indian Legislature to modify its policy. But the States have no means of exercising influence on the executive Government of India.

Before any policy involving control is formulated, therefore, the States, whose interests are vitally involved, must ask for an opportunity of influencing such policy and giving it shape and wherever possible they should also be represented on any Executive Authrotiy appointed to carry out this policy. How this can be done, has already been suggested by the States' Representatives when they met the Government of India Authorities last year.

10. Para 5.IV(1) supra. I take it that the contention here is that certain industries, because of their all-India importance and interest, should more properly be controlled by a single authority at the Centre than by a number of independent authorities in the Provinces each acting independently and influenced by a provincial outlook. If effective control of a co-ordinated character is to be exercised, the control now vested in the Provinces should therefore be transferred to the Central Authrotity. I do not think that in theory there can be any serious criticism of this position. The only line that frutful criticism can take is I think that the list is too pervasive. This point in fact was raised by the States' Representatives, and the meeting on the 21st of May, 1945. If the list of industries under this head, given in the statement of the Government of India, is to be curtailed, however, the States will have to advance adequate grounds for the exclusion of any industry they desire to see removed from the list. The only logical and effective method of doing so will I think be to lay down certain principles for the inclusion of industries in the Central list and then show that those to be eliminated do not fall within the application of those principles. This may not be an altogether easy thing to do. Further the inclusion of an industry in this list does not of itself mean that it will necessarily invite active

central control. It merely means that if action in pursuance of a policy which is decided upon in respect of any one of these industries is called for, it will be the Central Government that will embark upon it on a uniform plan and that it will not be left to the Provinces to apply varying, and it may be, divergent policies in regard to it which might well happen if the industry were on the Provincial list.

Paragraph 5.IV(2) supra.

I have no comment to make in regard to the industries which it is suggested should be owned and operated by the State. There are, however, one or two matters on which a further clarification of the Government of India's intentions will have to be invited. For instance I assume that nationalisation of any one of these industries situated in a State will be considered adequate and effective if the Government of the State takes it over provided of course the States' Government agrees to adhere to the policy applicable to that industry ~~in British India~~. Should, however, the State's Government not be willing to acquire a privately owned concern within its territories falling within any of the classes referred to here, I assume that in those circumstances, the Central Government would be at liberty to acquire and operate the industry in question. There is, however, another aspect of the control by the State of such industries as the bulk generation of power, railways and it may be coal. The States have had bitter experience of the way in which the Government of British India can utilise the power which, for instance, Geographical position or control over transport gives it to coerce the States into adopting a line of action desired by the Political Department or the Government of India in some totally unconnected matter. The States would therefor have to enter a very strong caveat that if, for instance, the Government of India takes over control of railways, bulk generation of power, coal etc., it will not use the immense power this will give it to coerce the States in respect of matters not concerned with the agreed policy to be applied to one or other of these industries about which some question may have arisen. If, for instance, the Central Government is to control coal, it should exercise the power of control merely to give effect to an agreed policy in respect of this particular industry and it should not use any power that the control of coal may give it to coerce States to adopt say for instance a particular fiscal policy not concerned with this industry as has been done in the past.

Also I take it that the rights of the States, who may be already owners of the industries indicated, will be fully safeguarded. For instance, railways, now under the control and in the ownership of a State's Government, will presumably be left untouched provided the general policy in regard to railways in British India is adhered to by the State, any deviation for such a policy being a matter for friendly negotiation and settlement. It may even be necessary for a State to give the assurance that in time of war, it will come into line with the railway administration in British India to ensure that the requirements of defence will be fully met. The same would apply to State electrical undertakings.

Paragraph 5.IV(3) supra.

The important point here is the proviso laid down in the Statement itslef by the Government of India. If this is strictly observed in practice, then I have no comments to offer. Thi list of "basic" industries suggested seems to be compiled on reasonable grounds. I am assuming that any of these "basic" industries already brought into existence by private capital and enterprise will not be affective but will continue to fun tion though it be/ open to the Government, in view of the country's requirements, to supplement available supplies of the products of such industries by itself undertaking production if private sources failed to meet requirements adequately and it was considered essential to do so in the national interests. To the list of "basic" industries given in the Statement, I would add "Therapeutical substances, drugs and medical appliances". So far as the States are concerned, they would, I take it, be at liberty to refuse to themselves undertake any "basic" industry. In that case, I assume that there would be no objection to the Government of India stepping in and setting up such an industry in the State provided the State's agreement was secured, the State's interests were safeguarded and the State was adequately reimbursed for the use of any of its natural resources and of such facilities as it might agree to place at the disposal of such an industry.

Paragraph 5.IV(4) supra.

Licensing is a thorny subject. Until the nature of the machinery, which it is proposed to set up for this purpose, is indicated more clearly and we have a clear idea of the principles which are proposed to be applied, it is not possible to offer any useful criticism. It will suffice at this stage to make three points viz, (1) not merely should the States be assured, as the Statement points out, that their legitimate desire for industrial development is not overlooked, but the fullest opportunity should be afforded to those States which are far behind in such development of making up the deficiencies of the past wherever possible, having due regard of course to economic considerations, (2) the States should be adequately represented on any Boards or Authorities established in connection with licensing, and (3) no general policy should be adopted without giving States an adequate and effective opportunity of expressing their views.

Paragraph 5.IV(5) supra.

I am extremely doubtful of the necessity for maintaining the control on capital issues. The power of licensing should by itself by sufficient to a very large extent to ensure the economic use of the capital available for industrial development. It seems inadvisable to place an additional power in the hands of the Government. The States have had bitter experience of the manner in which the power of control intended for certain definite purposes has been used by the Government of India to secure entirely different ends.

If it is contended that control of capital is necessary to ensure that adequate capital for the development of agriculture and for social services is also forthcoming, then it should be sufficient to control the total sums to be made available for each of the 3 purposes viz, Industry, Agriculture and Social Services. It is unnecessary and inadvisable to impose capital issue control over each individual application for an issue for an industrial purpose. Licensing can be

trusted to ensure economic distribution of industrial development.

Paragraph 5.IV(6) supra.

I have no comments to offer in regard to (a), (c) and (e). As regards (b) I agree that we should be chary of discouraging initiative and economic management by limiting profits and that a scientific system of taxation is a better method of dealing with excessive accumulation of profits. I also agree that where conditions of free competition do not exist, it may be that special measures may have to be considered. (d) Until it is known what practical measures are proposed to avoid unhealthy concentration of assets in the hands of a few persons or of a special community, it is not possible to offer any criticism. Too great interference with industry is to be strongly deprecated as a normal feature of a country's peace time policy. Even the Statement itself emphasizes the necessity for controls being reduced to the very minimum required, and the danger of Government extending the application of controls, once power is placed in their hands, is very real.

11. Paragraph 6.V supra.

(1) The proposals may be cordially supported. It need only be remarked that certain industries have made fabulous profits during the war and that an independent Tariff Board, if established, may no doubt be trusted to take such facts into account before any burdens are placed on the tax payer or the consumer.

(2)-(a). The improvement of transport facilities should undoubtedly occupy a front place in any plan for the country's development. But I would urge that rural communications should receive first consideration and priority should not be given to the great highways projected as a matter of course.

When, however, it has been decided that a main trunk highway is a necessity, its alignment should not ignor the fair claims of the States. Where a State is manifestly unable to bear the cost of construction on the scale contemplated or where, for good reasons, it is unfair to call upon to do so, there should be an allocation of charges on an equitable basis. In regard to (b), (c), (d) and (e), States should be ensured a fair opportunity of participating in the resulting opportunities and benefits on terms to be mutually agreed upon.

So far as (f), (g) and (h) are concerned, it should be left to each State, within its own territories, to decid the extent and nature of the assistance it will give to develop its own industries. Should any difficulty arise or objection be taken on the score of unfair advantage being secured by a State's industries through the assistance and aid given to them by the Government of the State, the question should be referred for decision to an impartial tribunal. The Tariff Board, if properly constituted, would be a suitable tribunal for deciding such matters. The right however, of a State to give reasonable assistance to industries within its borders in order to bring it industri to something approaching the level obtaining in British India, should be insisted on. The States, if they are acting in good faith, need fear no impartial and independent investigation as to whether in any particular case the assistance they are proposing to give is reasonable or not

SECTION C. General ciritcism and suggested Policy for the States.

12. At the end of paragraph 2 of the Government of India's Statement appears this significant observation. "It may be pointed out that this arrangement has no long range constitutional implication. It is intended to be in operation so long as the present constitution lasts; and to what extent it will survive beyond that period is a matter to be decided by the future."

At the very beginning, therefore, we are faced with the difficulty that we cannot say how long the policy now proposed will continue. If the present constitution goes this year or the next, the whole elaborate plan is liable to disruption. So far as the States are concerned, they can frame no long range economic policy for themselves until they see what the future constitutional picture is to be. So far not even the dim outlines of the picture are visible. Are there to be more than one India? If there is to be a single India, is it likely that a high degree of power and controlling authority will rest with the Centre. There are other relevant questions which cannot at this stage be answered and without satisfactory answers, the States cannot frame a considered long distance economic policy. At the same time, it may be agreed that something must be done at once. If opportunities for industrial development are not taken advantage of now, they may pass out of reach, if not for ever, at any rate for a considerable time to come. The States should, therefore, agree to co-operate generally with the object of advancing India's industrial development but the nature and extent of co-operation should be carefully considered at every stage. Moreover the States should make it clear that any action taken now by them must not be held to commit them in respect of any long range policy. They must have freedom to chalk out a considered line of action for themselves when the future constitutional picture becomes clearer and more definite. Subject to this over-riding proviso and despite all difficulties, it seems to me that the Government of India can take certain steps at once to implement the policy outlined by them. It can proceed to take over for instance those few industries which are marked out as falling within the legitimate sphre of Government vide paragraph 7(i) of the Statement. It can thus proceed with Ordinance factories and take over public Utilities, Railways and the special class of industries illustrated by "Salt manufacture" where the tax element predominates. I also think the Government of India can go on with schemes for the bulk generation of Power and for the improvement of Transport facilities if the States' interests are adequately safeguarded in regard to these developments. It can without itself embarking on any of the "basic" industries, help the Provinces and States either through private or State enterprise to make a beginning in this particular field. It can finally do a great deal to forward industrial progress through such assistance as is suggested by the Government of India itself vide paragraph 6.V in Section A supra.

I should myself deprecate any immediate further excursion into the elaborate field of controls outlined in the Statement and suggest that the States should consider whether they should not put this view forward for consideration. I do not of course mean that all control should be avoided in the near future. Control may e.g. be necessary in the interests of an industry itself or in national interests. As an illustration, I may refer to the case of

Shark's Liver Oil which is being as grossly adulterated as to amount to a criminal fraud on the public.

The one other major control that may be necessary at this stage will be to ensure the grant of suitable priorities for the import of machinery and possibly for the placing of orders abroad for machinery. The exercise of this control would enable the Government of India to exercise for all intents and purposes the control which they desire to wield through licensing. Nor need the States object provided the Priorities Board which may be a synonym for the Licensing Board is so constituted as to meet with their acceptance and ensure that their case will receive the fullest consideration. Subject to this, the freest opportunity should be given to private enterprise to push on with industrial development in the interim period that is until the outlines of the new Constitution emerge. Private enterprise in this case is not intended to exclude State enterprise in pushing on the development of particular industries.

These are my first tentative reactions to the Government of India's Statement. I am prepared to modify them in the light of any considered discussion of the problems involved.

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MAJOR STATES COMMITTEE.

1. Agenda for the Meeting of the Major States Committee held in Bombay on 10th July 1945.

2. Note by Sir Joseph Bhore on the statement of the Government of India on Industrial Policy.

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III Major States' Committee 82

AGENDA
for
the Meeting of the Major States' Committee, Bombay.

FIRST MEETING: 6. p.m. on 10th July in HH Bhopal's room.

SUBSEQUENT Meeting to be decided at the first meeting.

(1) Discussion of Statement ... ...rial Policy of the Government of India and of personal note circulated by the Director (Copy attached).

(2) Future work of the Committee.

(3) Industrial Mission from States

(4) Latest development in connection with the constitutional problems relating to the recent proposal of the Viceroy to form an interim (British Indian) Central Government

(5) Latest development in connection with the resignations of the Members of the Standing Committee of the Chamber of Princes.

(6) Any other subject that may be brought up by Members.

NOTE: (1) His Highness the Nawab Ruler of Bhopal proposes to preside at the first Meeting for discussion of items marked with an asterisk.

(2) His Highness suggests that Mir Maqbool Mahmood be invited to participate in the discussion on item (1) only.

Note by Sir Joseph Bhore, KCSI., KCIE.,
on the statement of the Government of India
on Industrial Policy.

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Section A. Analysis of statement by the Government of India on Industrial Policy.

1. I will attempt to set out the line of reasoning which seems to be implicit in the Government of India's Statement and to provide a larger measure of logical sequence in the principles and arguments on which the new Policy appears to be based than is discernible on a first reading of this document.

The following propositions form the frame work of the Statement:-

2. I. Industrial development is essential for the country

(1) to "increase the national wealth by the maximum exploitation of the country's resources". Without such increase, national progress must be attenuated and unsatisfactory;

(2) to make the country better prepared for defence;

(3) to provide employment and maintain it "at the highest possible degree of stability and volume".

3. II. Industrial development, if it is to yield optimum results, must be planned. Development must be co-ordinated and controlled to secure

(1) the most fruitful use of the limited capital available;

(2) well balanced and sustained progress in all fields of industrial production;

(3) equitable distribution of the additional wealth created without which sound development would be jeopardised and national well being, in its widest sense, would not be ensured.

4. III. Planned development of the country as a whole can only be secured by a single authority and the Government of India is the only suitable authority to exercise the necessary direction and control. The general economic policy pursued by the Government of India under its own constitutional powers exercises a profound influence over industrial development in the country. This is one reason why important industries should be in this Government's general sphere of control.

5. IV. The co-ordinated direction and control involved in planning are to be exercised in the following ways and through the following means:-

(1) Certain industries of great importance must no longer be left to the Provinces but must be brought under Central Control if a co-ordinated policy for all India is to be followed in respect of them. These industries are specified in the tentative list in paragraph 2 of the

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Statement beginning with "Iron and Steel" and ending with "Radio Engineering".

(2) Certain industries like ordinance factories, public utilities, railways bulk generation of electrical power and salt manufacture should be owned and operated by the State.

(3) Certain "basic" industries of national importance may be nationalised "provided adequate private capital is not forthcoming and it is regarded as essential in the national interest to promote such industries".

A list of such basic industries is given in paragraph 7(1) of the Statement and begins with "aircraft" and ends with "non-ferrous metal industries".

(N.B. - The proviso above is of special importance).

(4) Licensing of new industries and of expansion of existing factories.

(5) Control of capital issues.

(6) Control over industry in order

(a) to secure fair conditions for industrial workers;

(b) to prevent excessive profits to industry;

(c) to ensure quality of industrial products;

(d) to ensure the avoidance of unhealthy centration of assets in the hands of a few persons or of a special community;

(e) to require technical training of personnel, especially in the interests of minorities and backward communities.

6. V. In order to promote rapid industrialisation to the fullest possible extent, certain aids and protection to industries are proposed through the following measures:-

(1) Through a suitable Tariff Policy to be formulated after further consideration. In the meantime, as a short term measure, machinery will be at once set up to consider the claims to protection of "War" industries and those which have sustained the national economy in the past years and have been established on sound lines.

Through the provison of certain pre-requisites of industrial progress and in certain other ways as for instance through

(a) development of transport facilities,

(b) development of power,

(c) provision of facilities for the survey of mineral resources.

(d) scientific and industrial research,

(e) technical education.

(f) Government making loans or subscribing a share of the capital in certain classes of cases and subject to certain conditions (vide paragraph 9(i) of the Statement)

(g) Government guaranteeing a minimum dividend on capital or meeting revenue losses in certain cases and under certain conditions (vide paragraph 9(ii) of the Statement).

(h) Government examining from time to time the tax system with a view to ensuring that taxation does not tend to act adversely on development subject however to requirements of social justice and the national budget,

granting certain other subsidiary help and assistance indicated in Paragraph 9 sub-sections (iii), (iv), (v), (vii) and (viii).

Section B. Detailed examination of the Statement.

I venture to offer the following comments on the Statement of Policy. The remarks which follow relate to the paragraphs and sub-paragraphs in the preceding Section A

Para 2.I supra. The sentiments expressed here appear to be unexceptionable. The States should not find it difficult to endorse these views because they have themselves constantly sponsored such a policy of industrial development.

8. Paragraph 3.II supra. The general policy of control enunciated and the reasons on which such a policy is based may receive acceptance but it should be subject to a caveat which will be dealt with more appropriately in the succeeding paragraph.

9. Paragraph 4.III supra. The Government of India propose to take power to decide finally what industries shall come into existence and where they shall be located and to a more limited extent to lay down some at least of the conditions under which they should be run.

These are indeed large powers. So long as the Government of India exists in its present form and is not responsible to any authority in this country, such powers must be regarded as a potentially dangerous weapon. It is true, the Statement makes it clear that the Policy outlined is definitely a short term measure which may be upset or profoundly modified as the result of the future constitutio Nevertheless, serious harm may be done even in a short period of time by the executors of a policy novel in character which they know is liable to be reserved or modified at no distant date and when they themselves are not responsible to any authority in this country either for the framing or implementation of that policy.

Then these immense powers are sought to be applied over a Sub-Continent. I am open to information on this point but except as a war measure and except perhaps in one or two cases where the national economy has been deliberatel mobilised for war purposes, I doubt whether such far reaching controls, as a normal peace time policy have been

attempted anywhere in the world over so vast an area inhabited by so immense a population with sectional interests which may prove so gravely divergent. Control on such a scale implies the inevitable infliction of a large army of bureaucrats on industry and on the people with all the attendant evils of such a course.

I do not recite these arguments to support a case against control by the Government of India. Subject, to what I shall have to say later in this note, however, I suggest that what has been said above constitutes a sufficiently cogent reason for urging (1) that the very minimum control necessary for the implementation of a generally accepted policy should be imposed, (2) that the units concerned, the Provinces and the States should have an adequate voice in shaping the policy on which control is based, and (3) the machinery for the exercise of control should only be constituted after the fullest consultation with the Provinces and States and it should meet with their acceptance.

So far as States are concerned, unless their interests are fully safeguarded, they may easily go to the wall, and this applies with particular force to such States as are still far behind in the industrial race. Apart from other consideration, British India has some means of influencing the Executive Government of India. Although this Government owes no responsibility at present to the Indian legislature, nevertheless British India may, and indeed sometimes does, influence the Government of India through vocal criticism in the Indian Legislature to modify its policy. But the States have no means of exercising influence on the executive Government of India.

Before any policy involving control is formulated, therefore, the States, whose interests are vitally involved, must ask for an opportunity of influencing such policy and giving it shape and wherever possible they should also be represented on any Executive Authority appointed to carry out this policy. How this can be done, has already been suggested by the States' Representatives when they met the Government of India Authorities last year.

10. Para 5.IV(1) supra. I take it that the contention here is that certain industries, because of their all-India importance and interest, should more properly be controlled by a single authority at the Centre than by a number of independent authorities in the Provinces each acting independently and influenced by a provincial outlook. If effective control of a co-ordinated character is to be exercised, the control now vested in the Provinces should therefore be transferred to the Central Authority. I do not think that in theory there can be any serious criticism of this position. The only line that fruitful criticism can take is I think that the list is too pervasive. This point in fact was raised by the States' Representatives, and the meeting on the 21st of May, 1945. If the list of industries under this head, given in the statement of the Government of India, is to be curtailed, however, the States will have to advance adequate grounds for the exclusion of any industry they desire to see removed from the list. The only logical and effective method of doing so will I think be to lay down certain principles for the inclusion of industries in the Central list and then show that those to be eliminated do not fall within the application of those principles. This may not be an altogether easy thing to do. Further the inclusion of an industry in this list does not of itself mean that it will necessarily invite active

central control. It merely means that if action in pursuance of a policy which is decided upon in respect of any one of these industries is called for, it will be the Central Government that will embark upon it on a uniform plan and that it will not be left to the Provinces to apply varying, and it may be, divergent policies in regard to it which might well happen if the industry were on the Provincial list.

Paragraph 5:IV(2) supra.

I have no comment to make in regard to the industries which it is suggested should be owned and operated by the State. There are, however, one or two matters on which a further clarification of the Government of India's intentions will have to be invited. For instance I assume that nationalisation of any one of these industries situated in a State will be considered adequate and effective if the Government of the State takes it over provided of course the States' Government agrees to adhere to the policy applicable to that industry in British India. Should, however, the State's Government not be willing to acquire a privately owned concern within its territories falling within any of the classes referred to here, I assume that in those circumstances, the Central Government would be at liberty to acquire and operate the industry in question. There is, however, another aspect of the control by the State of such industries as the bulk generation of power, railways and it may be coal. The States have had bitter experience of the way in which the Government of British India can utilise the power which, for instance, Geographical position or control over transport gives it to coerce the States into adopting a line of action desired by the Political Department or the Government of India in some totally unconnected matter. The States would therefor have to enter a very strong caveat that if, for instance, the Government of India takes over control of railways, bulk generation of power, coal etc., it will not use the immense power this will give it to coerce the States in respect of matters not concerned with the agreed policy to be applied to one or other of these industries about which some question may have arisen. If, for instance, the Central Government is to control coal, it should exercise the power of control merely to give effect to an agreed policy in respect of this particular industry and it should not use any power that the control of coal may give it to coerce States to adopt say for instance a particular fiscal policy not concerned with this industry as has been done in the past.

Also I take it that the rights of the States, who may be already owners of the industries indicated, will be fully safeguarded. For instance railways, now under the control and in the ownership of a State's Government, will presumably be left untouched provided the general policy in regard to railways in British India is adhered to by the State, any deviation for such a policy being a matter for friendly negotiation and settlement. It may even be necessary for a State to give the assurance that in time of war, it will come into line with the railway administratic in British India to ensure that the requirements of defence will be fully met. The same would apply to State electrical undertakings.

trusted to ensure economic distribution of industrial development.

Paragraph 5.IV(6) supra.

I have no comments to offer in regard to (a), (c) and (e). As regards (b) I agree that we should be chary of discouraging initiative and economic management by limiting profits and that a scientific system of taxation is a better method of dealing with excessive accumulation of profits. I also agree that where conditions of free competition do not exist, it may be that special measures may have to be considered. (d) Until it is known what practical measures are proposed to avoid unhealthy concentration of assets in the hands of a few persons or of a special community, it is not possible to offer any criticism. Too great interference with industry is to be strongly deprecated as a normal feature of a country's peace time policy. Even the Statement itself emphasizes the necessity for controls being reduced to the very minimum required, and the danger of Government extending the application of controls, once power is placed in their hands, is very real.

11. Paragraph 6.V supra.

(1) The proposals may be cordially supported. It need only be remarked that certain industries have made fabulous profits during the war and that an independent Tariff Board, if established, may no doubt be trusted to take such facts into account before any burndens are placed on the tax payer or the consumer.

(2)-(a). The improvement of transport facilities should undoubtedly occupy a front place in any plan for the country's development. But I would urge that rural communications should receive first consideration and priority should not be given to the great highways projected as a matter of course.

When, however, it has been decided that a main trunk highway is a necessity, its alignment should not ignore the fair claims of the States. Where a State is manifestly unable to bear the cost of construction on the scale contemplated or where, for good reasons, it is unfair to call upon to do so, there should be an allocation of charges on an equitable basis. In regard to (b), (c), (d) and (e), States should be ensured a fair opportunity of participating in the resulting opportunities and benefits on terms to be mutually agreed upon.

So far as (f), (g) and (h) are concerned, it should be left to each State, within its own territories, to decide the extent and nature of the assistance it will give to develop its own industries. Should any difficulty arise or objection be taken on the score of unfair advantage being secured by a State's industries through the assistance and aid given to them by the Government of the State, the question should be referred for decision to an impartial tribunal. The Tariff Board, if properly constituted, would be a suitable tribunal for deciding such matters. The right however, of a State to give reasonable assistance to industries within its borders in order to bring it industrial to something approaching the level obtaining in British India, should be insisted on. The States, if they are acting in good faith, need fear no impartial and independent investigation as to whether in any particular case the assistance they are proposing to give is reasonable or not.

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SECTION C. General criticism and suggested Policy for the States.

12. At the end of paragraph 2 of the Government of India's Statement appears this significant observation. "It may be pointed out that this arrangement has no long range constitutional implication. It is intended to be in operation so long as the present constitution lasts; and to what extent it will survive beyond that period is a matter to be decided by the future."

At the very beginning, therefore, we are faced with the difficulty that we cannot say how long the policy now proposed will continue. If the present constitution goes this year or the next, the whole elaborate plan is liable to disruption. So far as the States are concerned, they can frame no long range economic policy for themselves until they see what the future constitutional picture is to be. So far not even the dim outlines of the picture are visible. Are there to be more than one India? If there is to be a single India, is it likely that a high degree of power and controlling authority will rest with the Centre. There are other relevant questions which cannot at this stage be answered and without satisfactory answers, the States cannot frame a considered long distance economic policy. At the same time, it may be agreed that something must be done at once. If opportunities for industrial development are not taken advantage of now, they may pass out of reach, if not for ever, at any rate for a considerable time to come. The States should, therefore, agree to co-operate generally with the object of advancing India's industrial development but the nature and extent of co-operation should be carefully considered at every stage. Moreover the States should make it clear that any action taken now by them must not be held to commit them in respect of any long range policy. They must have freedom to chalk out a considered line of action for themselves when the future constitutional picture becomes clearer and more definite. Subject to this over-riding proviso and despite all difficulties, it seems to me that the Government of India can take certain steps at once to implement the policy outlined by them. It can proceed to take over for instance those few industries which are marked out as falling within the legitimate sphere of Government vide paragraph 7(i) of the Statement. It can thus proceed with Ordinance factories and take over public Utilities, Railways and the special class of industries illustrated by "Salt manufacture" where the tax element predominates. I also think the Government of India can go on with schemes for the bulk generation of Power and for the improvement of Transport facilities if the States' interests are adequately safeguarded in regard to these developments. It can without itself embarking on any of the "basic" industries, help the Provinces and States either through private or State enterprise to make a beginning in this particular field. It can finally do a great deal to forward industrial progress through such assistance as is suggested by the Government of India itself vide paragraph 6.V in Section A supra.

I should myself deprecate any immediate further excursion into the elaborate field of controls out lined in the Statement and suggest that the States should consider whether they should not put this view forward for consideration. I do not of course mean that all control should be avoided in the near future. Control may e.g. be necessary in the interests of the industry itself or in national interests. As an illustration, I may refer to the case of

Shark's Liver Oil which is being as grossly adulterated as to amount to a criminal fraud on the public.

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self-acquired. Every individual must have the fullest liberty to use his talents consistently with equal use by his neighbours but no one is entitled to the arbitrary use of the gains from the talents. He is part of the nation or say the social structure surrounding him. Therefore he can only use his talents not for self only but for the social structure of which he is but a part and on whose sufference he lives. The present inequalities are surely due to people's ignorance. With a growing knowledge of their natural strength, the inequalities must disappear. If the revolution is brought about by violence the position will be reversed, but not altered for the better. With non-violence, *i. e.* conversion the new era which people hope for must be born. My approach and appeal are in terms of non-violence pure and undefiled. The French have a noble motto in Liberty, Equality, Fraternity. It is a heritage not for the French only but for all mankind.

What the French never realised it is open to us to do. Will the Princes and the princely land-holders and merchants take the lead? It is for them to take the lead, not for the 'have-nots', who have nothing to share with anybody except their pauperism and abjectness. I am addressing weekly appeals to the British Power. They are made exact in the same friendly spirit as this is. The British may not respond. If the 'haves' who are in fact the pillars on which the mighty British Power rests, can realise their obvious duty, the British Power must yield. It was because I had despaired of response from the pillars, that I have thought of moving the masses on whom the pillars rest. I may not leave a single stone unturned to avoid, if I can, what is undoubtedly a great risk. Hence this appeal.

Sevagram. 27-7-'42.

Reprint from the "Harijan", 2nd August, 1942.

FOR THE PRINCES

BY

M. K. GANDHI.

A kind of nervousness creeps over me as I think of the Princes of India, although I have the privilege of knowing many and some even intimately. My nervousness arises from the painful knowledge that they are a creation of the British Rulers. Though some of them pre-existed before the British advent, their existence thereafter depended solely on British good-will, which in its turn depended upon the price the then incumbents paid for that commodity. The present incumbents are sole creation of the Imperial Power. Its simple frown can undo them.

But they need not feel so helpless if they could consider themselves as an integral part of the nation instead of being, as they are, an integral part of the Imperial machine. If the machine topples they may disappear unless they become part of and depend upon the nation.

The Empire is going either by the will of the British people or by the force of circumstances beyond their control. India shall not always be a slave country. Will the Princes march with the times or must they remain tied to the Imperial chariot-wheel? If they take their courage in both their hands and make common cause with the nation they can run the risk of dispossession.

This I admit is a heroic step. They can adopt the middle course. They may earn the good-will of their people by sharing their powers with them. They will never be able to retain their absolutism for all time. But they may certainly hope to retain much if they can secure the contentment and active co-operation of the people within their jurisdiction, in the administration of their own affairs. I think it is wrong of the Princes to let their critics say of their people that they are too backward to deserve freedom. It is reflection on them. The people in the States belong to the same stock as those outside their borders. The Princes can lose nothing by being liberal. And they can lose every thing by holding on to their autocracy.

For my part I desire not abolition, but conversion of their autocracy into trusteeship, not in name but in reality. The arbitrary powers they enjoy should go. The liberty of the people should not depend upon the will of an individual however noble and ancient may be his descent. Nor can any person, whether prince or a princely zamindar or merchant, be the sole owner and disposer of possessions hereditary or

Reprint from the "Bombay Chronicle," 27th June, 1945.

AGA KHAN'S CABLE TO GANDHIJI AND AZAD.

SIMLA, June 26, (A. P. I.): His Highness the Aga Khan has sent a cable to Mahatma Gandhi and Maulana Abul Kalam Azad suggesting that the Congress should take the lead in the final solution of all political differences in India, including the problem of Indian States.

The Aga Khan commends for their consideration the constitution of an Indian Commonwealth of Nations "based on a union of hearts and interests and not on majority force."

The first step towards the establishment of such a confederation would be the constitution of Muslim majority provinces in the West into one block and a united Bengal – Assam of the East, the Federation of Indian States in groups and then their entrance into a great confederation.

The Aga Khan suggests that his proposal, if accepted, will solve the complicated problems of Indian States. Ceylon and Burma and, possibly, Afghanistan might join the confederation later on.

The Aga Khan concludes: "Please forgive my intrusion on your most precious time at this juncture and believe me the motive of my suggestion is sincere and profound feelings and no hostility towards the Congress. You are welcome to throw it in the waste paper basket."